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# AUTHORIZE THE FOREIGN SALE OF CERTAIN PASSENGER VESSELS

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## HEARINGS

BEFORE THE

MERCHANT MARINE SUBCOMMITTEE

OF THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

NINETY-SECOND CONGRESS

SECOND SESSION

ON

### H.R. 11589

TO AUTHORIZE THE FOREIGN SALE OF CERTAIN  
PASSENGER VESSELS

FEBRUARY 28 AND MARCH 14, 1972

Serial No. 92-45

Printed for the use of the Committee on Commerce




U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1972

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**AUTHORIZE THE FOREIGN SALE OF CERTAIN  
PASSENGER VESSELS**

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MONDAY, FEBRUARY 28, 1972

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
SUBCOMMITTEE ON MERCHANT MARINE,  
*Washington, D.C.*

The subcommittee met at 2 p.m. in room 5110, New Senate Office Building, Hon. Ernest F. Hollings, presiding.

Present: Senators Long and Hollings.

Senator HOLLINGS. Ladies and gentlemen, the committee will please come to order.

Today we open hearings on H.R. 11589.

Senator Long is headed to the committee room, and he should be along presently to preside here.

We have the distinguished ranking member on the House side of Merchant Marine and Maritime Affairs, Hon. Leonor K. Sullivan, and she has other duties, and I do not want to hold her.

(The bill follows:)

Staff member assigned to these hearings: Emanuel Rouvelas.

92<sup>D</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 11589

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## IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 4, 1971

Mr. GARMATZ (for himself, Mr. LENNON, Mr. DINGELL, Mr. LEGGETT, Mr. TIERNAN, Mr. CLARK, Mr. PELLY, Mr. DOWNING, Mr. GROVER, Mr. DE LA GARZA, Mr. JAMES V. STANTON, Mr. MILLS of Maryland, Mr. ROGERS, Mr. GOODLING, Mr. JONES of North Carolina, Mr. BYRNE of Pennsylvania, Mr. DU PONT, Mr. McDONALD of Michigan, Mr. ASHLEY, Mr. FORSYTHE, Mr. KARTH, Mr. McCLOSKEY, and Mr. ROONEY of Pennsylvania) introduced the following bill; which was referred to the Committee on Merchant Marine and Fisheries

---

## A BILL

To authorize the foreign sale of certain passenger vessels.

- 1        *Be it enacted by the Senate and House of Representa-*  
 2        *tives of the United States of America in Congress assembled,*  
 3        Notwithstanding any other provision of law or of prior con-  
 4        tract with the United States, any vessel heretofore operated  
 5        as a passenger vessel, as defined in section 613 (a) of the  
 6        Merchant Marine Act, 1936, as amended, under an operating-  
 7        differential subsidy contract with the United States and now  
 8        in inactive or layup status, except the steamship Independ-  
 9        ence and the steamship United States, may be sold and trans-

1 ferred to foreign ownership, registry, and flag, with the prior  
2 approval of the Secretary of Commerce. Such approval shall  
3 require (1) approval of the purchaser; (2) payment of ex-  
4 isting debt and private obligations related to the vessel; (3)  
5 approval of the price, including terms of payment, for the  
6 sale of the vessel; (4) the seller to enter into an agreement  
7 with the Secretary whereby an amount equal to the net pro-  
8 ceeds received from such sale in excess of existing obligations  
9 and expenses incident to the sale shall within a reasonable  
10 period not to exceed twelve months of receipt be committed  
11 and thereafter be used as equity capital for the construction of  
12 new vessels which the Secretary determines are built to effec-  
13 tuate the purposes and policy of the Merchant Marine Act,  
14 1936, as amended; and (5) the purchaser to enter into an  
15 agreement with the Secretary, binding upon such purchaser  
16 and any later owner of the vessel and running with title to  
17 the vessel, that (a) the vessel will not carry passengers or  
18 cargo in competition, as determined by the Secretary, with  
19 any United States-flag passenger vessel for a period of two  
20 years from the date the transferred vessel goes into opera-  
21 tion; (b) the vessel will be made available to the United  
22 States in time of emergency and just compensation for title  
23 or use, as the case may be, shall be paid in accordance with  
24 section 902 of the Merchant Marine Act, 1936, as amended  
25 (46 U.S.C. 1242) ; (c) the purchaser will comply with such

1 further conditions as the Secretary may impose as authorized  
2 by sections 9, 37, and 41 of the Shipping Act, 1916, as  
3 amended (46 U.S.C. 808, 835, and 839); and (d) the  
4 purchaser will furnish a surety bond in an amount and with  
5 a surety satisfactory to the Secretary to secure performance  
6 of the foregoing agreements.

7 In addition to any other provision such agreements may  
8 contain for enforcement of (4) and (5) above, the agree-  
9 ments therein required may be specifically enforced by decree  
10 for specific performance or injunction in any district court  
11 of the United States. In the agreement with the Secretary  
12 the purchaser shall irrevocably appoint a corporate agent  
13 within the United States for service of process upon such  
14 purchaser in any action to enforce the agreement.

15 SEC. 2. The Secretary of Commerce is authorized and  
16 directed to purchase the steamship United States, as is,  
17 where is, at the depreciated cost of the vessel to the owner,  
18 as determined by the Secretary of Commerce, less the unpaid  
19 principal and interest on the mortgage on the vessel, for  
20 layup in the National Defense Reserve Fleet and operation  
21 for the account of any agency or department of the United  
22 States during any period in which vessels may be requisi-  
23 tioned under section 902 of the Merchant Marine Act, 1936,  
24 and/or for sale or charter to a qualified operator for operation  
25 under the American flag. The depreciated cost of the vessel

1 to the owner shall be computed on the schedule adopted by  
2 the Internal Revenue Service for income tax purposes. Such  
3 determination shall be final. The Secretary of Commerce  
4 shall require the owner of the vessel to agree that it will pay  
5 all existing private obligations related to the vessel, and that  
6 it will commit an amount equal to the net proceeds received  
7 from such sale in excess of existing obligations and expenses  
8 incident to the sale, within a reasonable period not to exceed  
9 twelve months of receipt, as equity capital for the construc-  
10 tion of new vessels which the Secretary determines are built  
11 to effectuate the purposes and policy of the Merchant Marine  
12 Act, 1936, as amended.

Senator HOLLINGS. Would you like to come forward, please, Mrs. Sullivan?

**STATEMENT OF HON. LEONOR K. SULLIVAN, U.S. REPRESENTATIVE  
FROM THE THIRD DISTRICT, STATE OF MISSOURI**

Mrs. SULLIVAN. Thank you.

Mr. Chairman, almost a million American citizens are taking cruises each year out of our east coast ports, but not one of them travels on an American-flag ship. There are at present no such ships in operation.

They are laid up because the American ship lines and the Maritime Administration have not had the ingenuity to figure out a profitable and practical method for them to operate, even with differential subsidies.

Consequently, the hundreds of thousands of Americans who flock to our eastern ports to board cruise ships to the Caribbean or elsewhere are contributing substantially to our balance-of-payments deficit and to the well being of the foreign owners and the families of foreign seamen of Dutch, Norwegian, Italian, British, French, Greek, and assorted other maritime nationalities.

In opposing this legislation to allow five of our excellent American passenger ships to be sold to foreign interests, I am aware of the fact that the Merchant Marine Committee of the House, on which I am the senior ranking member, voted overwhelmingly to approve the legislation, and that the bill passed the House early last December. I am also aware that the owners of the five ships want to get rid of them as soon as possible and that every shipyard in the country has the hope that out of this legislation it may possibly get some new cargo ship construction business. But I am conscious of another fact—that the American taxpayers have invested over \$60 million in the construction of these five ships within the past 20 years.

Under this legislation, that investment will be wiped out. And what about the thousands of American seamen who could be employed on these ships? They will lose out entirely. And what about the further damage to our balance-of-payments situation? What about the idea of keeping the American flag flying on American-built passenger vessels?

Mark this, Mr. Chairman, those five ships, if sold foreign, will be operated out of the American ports carrying American cruise passengers, but with foreign crews and subject to foreign control. We, the U.S. citizens, will be paying all of the bills while foreign maritime interests will be enjoying all of the tremendous economic benefits.

Those ships could not possibly be duplicated at the prices they would bring in today's used-ship market.

The report of the House committee goes into extensive detail on why it is unprofitable to operate passenger ships under the American flag. But I ask, has the effort really been made? Or are the ship lines in the same situation today as the American railroads were a few years ago in making no real effort to keep passenger service in operation?

Now it is true, ocean passenger service from point to point is dying; but the cruise business is booming. By defeating this proposed legislation, we will make clear to the Maritime Administration that Congress intends for it to bestir itself in that agency and work out with American investors and cruise ship operators a viable plan for restoring the taxpayer-subsidized *Brasil*, *Argentina*, *Constitution*, and the *Santa Rosa* and the *Santa Paula*, and put them back in service, under the American flag.

Gentlemen, when the millions of dollars in subsidies were paid out by our taxpayers to construct the five ships involved in this legislation, the money was paid on condition the ships would remain under the American flag for 25 years. One of these ships, the *Constitution*—and it is still a fine ship—is 20 years old; the other four are only 13 years old.

Under the construction subsidy contract the *Constitution* owes the American people 5 more years of service under the American flag. The other four each owe 12 more years of such service. But the owners want to abrogate their construction subsidy contracts with the American people far in advance of the end of the contractual period, apply the book losses against their taxes and use an estimated cash flow of some \$18 million they expect to get as net revenue from the sale of these five ships. And they want to use this money as down payments toward the construction of subsidized new cargo vessels that we do not need at the present time, because the proposed new cargo vessels would not add to our maritime capacity but would rather merely replace some of the still-serviceable older ships either now in service or available for service.

The ship construction program of this administration has been a failure to date in meeting the number of ships they expected to have built, and it seems the only way the Administration can see for getting some new ships built is to destroy the American passenger trade entirely through the sale abroad of these five fine passenger ships.

I call the attention of the subcommittee to the extensive material that I placed in the Congressional Record on November 12, beginning on page E-12175, and I hope that the membership of this subcommittee, if they have not already done so, would look at this material.

I call particular attention to the information provided me by a former officer of the *United States*, Mr. Richard O'Leary, now the assistant general manager of the Norfolk Port and Industrial Authority who has been instrumental in making Norfolk a major cruise ship port and who knows a great deal about that issue.

People around the world, he writes me, especially on the U.S. east coast, are vacationing by ship—cruising—in rapidly increasing numbers. It is a booming business with tremendous future potential.

More foreign research and marketing funds are being spent to motivate the American consumer toward cruising than have ever been spent in the passenger ship industry, and this is all being done by foreign ship lines, Mr. O'Leary pointed out.

He subsequently added:

It would seem that the elements are right for an imaginative American entrepreneur to investigate the potential for operating American passenger

ships under these conditions. Certainly it would seem that the United States Government would exert tremendous effort to find some way to usefully employ these resources that have been created with large amounts of taxpayers' money.

I urge that you read Mr. O'Leary's thoughtful and imaginative letter on this subject. As I said, it is in the Record of November 12, at page E-12174.

(The letter follows:)

CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, D.C., November 5, 1971.

HON. EDWARD A. GARMATZ,  
*Chairman, House Committee on Merchant Marine and Fisheries, Washington, D.C.*

DEAR MR. CHAIRMAN: I am sorry that I cannot attend the meeting that was called last night for 11 a.m. this morning, due to a commitment I have with people from my district on a highway problem. I would appreciate your reading this letter into the record, knowing that I cannot vote by proxy.

According to the information given to me by you last night, two of the proposed amendments to be made to the bill, H.R. 10577, would eliminate the SS *United States*, which would be taken over by our Government and the exemption also of the SS *Independence*.

While I believe the exemption of these two ships is a move in the right direction, I am sure you, as chairman, know that there has also been a legitimate offer by another cruise operator and the investor who expects to negotiate the purchase of the two Moore-McCormack ships, the SS *Brazil* and the SS *Argentina*. This is a legitimate offer by legitimate individuals who hope to begin at once to work with our Maritime Administrator and to negotiate for the purchase of the two ships from the owners of Moore-McCormack Lines. This leaves three ships in question.

As I said in my previous letter of September 23, 1971, I am opposing the sale of these passenger liners owned by firms with U.S. registry. I am still of the opinion that these ships can be taken over by some American operating firm to be operated under the U.S. flag, if given the opportunity to do so. Therefore, I still oppose this legislation at this time and feel I must use every means possible to defeat the bill should it be voted out of Merchant Marine and Fisheries Committee and sent to the Rules Committee for action.

Sincerely yours,

LEONOR K. SULLIVAN,  
*Member of Congress, Third District, Missouri.*

NORFOLK, VA.,  
November 8, 1971.

HON. LENOR K. SULLIVAN,  
*Merchant Marine and Fisheries Committee, House of Representatives, Washington, D.C.*

DEAR MADAM: It would appear that the Congress is about to pass legislation to permit the sale of American passenger ships to foreign interests. American operators who are largely unaware of recent passenger ship market trends have used historical demand and cost data to show why American ships are no longer useful.

At the same time foreign companies have adapted to market trends and are creating new product offerings by modifying their ships to suit changes in the market, while simultaneously generating new demand by using modern, imaginative marketing techniques.

Conditions are changing so rapidly in the industry that historical demand and cost data is not necessarily relevant. Conditions associated with past operations have vastly changed and should be carefully reevaluated before a decision to sell is made. Of more importance, business conditions, from an American point of view, have become unique. Exploitation of these unique conditions combined with adaptation of techniques employed by foreign

operators make some American passenger operations feasible. These ships should not be sold without a more careful study of the industry and its future.

My background and experience have allowed me to gain a good deal of knowledge about all aspects of this business. I spent five years on the bridge of the liner United States as Second and Third Officer from 1957 to 1962. After that, I became Commandant of Midshipmen at the U.S. Merchant Marine Academy at Kings Point. I also worked for the Maritime Administration in Washington promoting the American Merchant Marine. More recently, I have been working as Assistant General Manager of the Norfolk Port and Industrial Authority and Managing Director of the Virginia Cruise Corporation.

More importantly, I have personally led the effort to make Norfolk the third major cruise gateway on the East Coast. As you may know, Cunard Line will be sailing the Queen Elizabeth 2 from this port and also placing its newest ship, the Cunard Adventurer here for weekly sailings on a regular basis.

The Port Authority, along with Cunard, is planning a major promotional program to generate new business in the central part of the Eastern Seaboard. My involvement in this project over the last two years has given me an opportunity to learn a good deal about the passenger ship business from an entirely new perspective. As a matter of interest, I have attached an article that appeared this month in the Baltimore Chamber of Commerce magazine that rather objectively reports on my work in this area.

Although not well known, people around the world, especially on the U.S. East Coast, are traveling by ship (cruising) in rapidly increasing numbers. It is a booming business with tremendous future potential. More foreign research and marketing funds are being spent to motivate the American consumer toward cruising than have ever before been spent in the passenger ship industry.

American passenger ships are lying idle and their value as business resources are rapidly diminishing. It is a buyers market for these ships. Concurrently, the labor unions whose personnel would work on these U.S. ships have indicated a willingness to consider attractive long-range agreements in order to recapture some of the positions that have been lost. It would seem that the elements are right for an imaginative American entrepreneur to investigate the potential for operating American passenger ships under these conditions. Certainly it would seem that the U.S. government would exert tremendous effort to find some way to usefully employ these resources that have been created with large amounts of taxpayers money.

Yet, almost all of the testimony of the ship owners and the government officials charged with promotion of the American Merchant Marine describe a hopeless situation with only one solution—sale of the ships to foreign interests. The same private and public entities that did not foresee the possibility of this bleak situation when they planned and successfully acquired public money for these ships, now say there is no hope for their use by American interests.

In my judgment, the position of these interests is lacking in vision and imagination, and more importantly, in a determined desire to turn around a situation which probably has a solution. If we continue to walk away from every business problem without really making a thorough effort to explore potential, it is the future of the country itself that is bleak.

I am not suggesting that all these ships can be operated against the type of competition that now exists. I am suggesting that with boldness, imagination, and determination at least some of these ships can be usefully employed in a way that will bring more return to the public interest than the funds involved in their sale. Below are some of my own ideas on how these ships might be usefully employed.

Let me start by stating that under any operator, one of the first things that would have to be done is to have the ships surveyed by an efficiency team. It is well known that most of the ships were models of inefficiency under past operations. Formulas that relate the number of crew to number of passengers should be developed and agreed to by the unions under any type of operation.

There is one area of passenger ship operations in which foreign interests cannot compete; that is coastwise service. Increased and more sophisticated foreign marketing efforts will cause Americans to go to sea in increasing numbers. Research has shown that cruise business is a "high repeat" business. Statistics show that better than 50% of the people who go on cruises do it again. In general, awareness of travel by sea is increasingly rapidly in the

American consumer market. I believe this interest is transferable to coastal travel, and careful employment of one or more U.S. vessels in the coastwise service might produce remarkable results.

For instance, one or more of the smaller ships might be scheduled between U.S. East Coast ports in a way that would be an attractive proposition from the consumer's point of view and also offer great operational cost savings. Much of the luxury and inefficiency could be eliminated and a modest price offered.

The idea would be to employ the ships in such a way that they would be primarily in the "floating hotel" business and secondarily, in the transportation business.

In the summer a ship might be operated between Norfolk, Baltimore, and New York, or between Boston and New York. The schedule would allow the ships to be in port much of the time and always over the weekend, so that only a reduced number of deck and engineering personnel would be on the payroll and weekend overtime could be greatly reduced. Much of the operating crew could be assigned on the short sea voyage much as night officers are presently assigned. Two ships in such an operation would eliminate the need for return transportation by providing round-trip employment.

The idea of sailing into New York harbor on a ship, and the convenience and glamour of a shipboard hotel would have great appeal to people in the middle section of the East Coast or New England. On the other hand, the idea of sailing to Tidewater Virginia and visiting Virginia Beach and Williamsburg and the other Virginia attractions, would have appeal to many people. The same is true of New England.

In winter months the ships might run from mid-Atlantic ports to Cape Kennedy (Disney World), Port Everglades, or Miami, and serve as floating hotels.

Or perhaps ships could run on a "See the East Coast by Water" concept with stops at various East Coast ports. Other possibilities are numerous.

The key to this proposition is that present laws prohibit foreigners from engaging in this business, thus there is no competition. Freight and mail contracts might add to the economic viability of such ventures. There are many interesting origins and destinations on our coastlines that the right American ships might connect for an American public that is becoming increasingly sea travel conscious.

It would have to be a carefully constructed operation from an operating cost point of view and it would have to be *marketed*.

If subsidy was considered a prudent investment for such a venture, the fact that present laws do not provide for subsidy in the domestic trade represents but a small obstacle, considering the fact that it seems possible to obtain legislation to sell the ships.

Another idea I have had relates solely to the S/S United States. The S/S United States has two characteristics that separate her from the other laid-up American ships. She is very large and very fast. The quality of her construction, and her speed, size, and depressed value are what make the ship attractive to foreign purchasers.

The only plan that I have heard of proposed by American interests envisions some alterations to the ship in order to compete with foreign ships in the cruise trade, and in the super-luxury "round the world" service. I don't believe this ship could ever again compete in this kind of business.

I believe the secret to her successful employment is to steal concepts from what foreign interests would probably do with her. Her characteristics of size and speed make her suitable to move large numbers of people at a high speed. If the concept of transportation of large numbers of people in comfort is substituted for the concept of transporting smaller numbers of people in luxury, the ship gains a new dimension. She can transport people economically. This in turn, opens a whole area of marketing opportunities.

The ship has a commercial capacity of 1900 and a military lift capacity of a full division, about 17,000.

If the ship were reconfigured to carry 3200 people in modest but comfortable surroundings, the possible results from an economic point of view are very interesting. In my judgment, this reconfiguration would not be as great or as expensive a task as might be supposed. The Greeks are masters at changing

the configuration of passenger ships, and we might borrow their techniques.

The former per diem operating costs to United States Lines when the United States was in transatlantic service amounted to about \$77,000 per day in 1968. In addition, the government provided about \$27,000 per day in operating differential subsidy for a total cost of about \$100,000 per day.

Revenue during the same period amounted to about \$50,000 per day resulting in a very unprofitable situation. Of course, these costs are based on a grossly inefficient type of operation.

The operation I have in mind would involve creating a top capacity for about 3200 passengers on the ship in modest accommodations similar to a modestly priced hotel. The ship would be employed from about April through September on the Atlantic on an itinerary from New York to one European gateway port. From October to March she would operate from Los Angeles to Honolulu. The Atlantic voyages would be of 4½ days' duration and the Pacific voyages would be somewhat shorter.

The price would be established at a level that would be competitive with economical air fares. The Atlantic fares would be from \$99 to \$199 and the Pacific fares from \$75 to \$150—about \$20 to \$50 per day. The price would include a selection of good food served buffet style with a limited selection of entrees. Beds would be made once per day and basic housekeeping accomplished. While the ship is in a U.S. port, only crew members actually engaged in work would be paid. Major cleaning of the ship would be accomplished by shore gangs in port, at either end of the voyage. There would also be a modest entertainment program offered.

According to preliminary marketing research done by the Graduate Business School at the University of Virginia, there would be a tremendous demand for this type of service in the college market alone.

The concept could be marketed offering "Transportation For The People" on two attractive itineraries during good seasons from both coasts. On the Atlantic run it would serve as an inducement to Europeans to visit this country.

Marketing could be aimed at attracting people who would like to have a "sea experience" and those who do not care to fly, as well as those who could not otherwise afford a vacation at a more expensive per diem rate. The value of this offering (i.e., five days of travel, food, and lodging) versus the eight hours in the air could be exploited.

Under such an operation at 90% capacity, revenues would be in the area of \$86,000 to \$100,000 per day, without income from concessions, etc. This concept of operation should allow very large cost savings and should put the operation in the black, even with increased cost of certain items such as fuel. These savings would be in large crew reductions approaching 50%, large cost savings in food, as well as cost savings in general efficiency of operation. Perhaps a quasi-public authority could perform this operation with a goal of merely breaking even.

This is not meant to be a definitive plan of operation, but rather I have tried to demonstrate how a new concept can drastically change the economics of operating an American passenger ship.

Aside from this possibility, I feel certain there are other uses of the *United States* that have merit that may have been proposed or have not yet been thought of. The ship, because of its fame and uniqueness would lend itself well to many projects, either private or public. The idea of converting her into a traveling American ship of Commerce with space rented by American business for exhibits of American products and technology might help improve our balance of trade. The idea of a great sea-going university would seem to have merit.

Such projects should be analyzed from a macro-economic point of view and from the point of view of national public relations value.

The *United States* is the finest commercial vessel ever built and during the 1950s was a symbol of our technological leadership. She brought great glory to the country during a period when our position of maritime leadership was eroding. In my judgment, it would be disgraceful not to find an American use for this vessel for the next few years until she reaches a respectable old age from an operating point of view.

There are also reasons why these vessels should not be sold which are related to defense. Several of these ships have had features built into them, at

great cost, at the request of the Department of Defense. For example, length of the S/S United States was governed by the demands of getting through the Panama Canal, and many of her basic characteristics were dictated by the ability to turn her into a troop carrier on short notice.

As a reserve naval officer and a student of transportation, it is almost inconceivable that we could with any confidence write off every possibility for the need to transport personnel by ship in all future contingencies. (During two world wars we have experienced great disadvantages, and demand for tremendous amounts of money because of our pragmatic attitude and short-sightedness with regard to merchant vessels). To me, the idea of requiring an agreement from prospective foreign purchasers not to alter defense features and return the ships to this country under certain conditions is less than a satisfactory arrangement and an implicit acknowledgement of the possible need for these ships.

In general, I think it would be a mistake to sell most of these ships at this time, even if it is necessary for the government to relieve the present owners of the financial drain they are experiencing in maintaining them.

From a national point of view, the funds involved are so insignificant that I think the proposition of government purchase of some of these vessels should be considered. The opportunity for a foreign sale is not likely to disappear in the near future so the funds could be largely recaptured and hasty action could be avoided.

I believe that a carefully appointed task force with a goal and a strong desire to find a way to productively employ some of these resources would be successful. I even believe that if nothing is done that American business interest will develop in these vessels in the next two years because of changing conditions in the sea travel business.

As an American I am concerned that we have not looked hard enough at this situation. It is simply inconceivable to me that we cannot find a better alternative than the course we seem about to take. There is no great urgency for the sale other than the financial relief of the companies involved, which might be handled in some other way. This obviously is an important decision that is irrevocable once it is made. It is deserving of further exploration and careful deliberation.

RICHARD D. O'LEARY.

Mrs. SULLIVAN. There are too many questions about this proposed deal for foreign sale of our valuable ships that have not been answered. I asked some of the questions in the House hearings, and there are many others, and they have not been answered.

Why, for instance, did the Grace Line, which has been operating the *Santa Rosa* and the *Santa Paula* profitably, sell them to another operator in 1969? Was it to take advantage of a \$32 million tax writeoff?

And now what kind of tax write-off does the subsequent buyer hope to achieve by passage of this bill? Why has the Maritime Administration refused to make any effort to find American buyers for these ships? Is it in order to try to save on operating subsidies?

Why has Moore-McCormack refused to even respond, according to the last knowledge I have had on it, to a \$15 million offer from American investors to buy the *Brasil* and the *Argentina*? Is it because they are waiting for passage of this bill to open up the bidding to foreign interests?

I can say there was no pleasure for me in standing in opposition to nearly all the members of my own committee on this measure, but I felt I had to do so. I hate to see the Congress knuckle down to any industry seeking special advantage at the expense of the American taxpayer and of the American public and of American seamen.

Know that American-flag ships are the safest in the world, operating under stricter safety requirements than those of any other nation, and that American seamen are paid wages commensurate with American standards, I do not see how Members of Congress would want to say to their constituents:

If you want to enjoy passage on a cruise ship, pick a foreign flag ship because we have just gotten rid of our entire American passenger fleet so that the ship lines which owned them could qualify for windfall tax benefits.

For that is exactly what the enactment of this bill would be saying to the people of the United States—to Americans who are discovering in increasing numbers every year the joys and relaxation of an ocean cruise, the best vacation imaginable.

We would be saying "Go Dutch," or "Go British," or "Go Italian," or "Go Norwegian," at the same time that we are desperately trying to overcome our balance-of-payments problem, even to the extent of having had an import tax surcharge that jeopardized the whole concept of reciprocal trade, and are in the process of devaluating the dollar.

The American cruise passenger should be urged to "Go American," and they should be sold on the unique safety of the American ships. They should have an opportunity to go on an American ship, not only for what it means to our own economy, but for what it also means to the passengers' own peace of mind. If our ships cannot compete with the foreign cruise operators, it is only because the Maritime Commission in years past has never bestirred itself to figure out ways that it can be done.

Is American ingenuity dead? I would hate to think so. But this bill is an obituary for the American flag on the passenger routes of the world. Passage of this bill would bury at sea the best national passenger fleet on the high seas, probably forever.

Under foreign-flag operation these ships would not be the same ships that they have been under American operation, and we would never build any more once the decision is made to let them slip away from us.

Senator LONG (presiding). Mrs. Sullivan, please pardon me for not being here to open this hearing. I was conducting a hearing on the debt limit bill from 10 o'clock this morning until 1:40 p.m., and I came over as soon as I could.

I want to thank Senator Hollings for opening the hearings.

I believe that you and I saw eye to eye with regard to the *Delta Queen* matter, and I am happy to see that we have prevailed on that. I feel as one who lives on the river somewhat grateful to you for the fine work you did in that area.

I really do not have any questions to ask about your very eloquent statement.

Senator Hollings?

Senator HOLLINGS. Yes, Mrs. Sullivan. I am very much impressed with your statement. It brings right into focus as I see it with the facts that the world was going to end unless this bill was passed in 20 days and just go completely out of the passenger service, and if we didn't get it by, the world was going to end. I just don't have any better way to put it.

I asked for a hearing, and as a result we are here this afternoon. I appreciate your coming over so we could hear something about it. Because I live right on the water—my address is—if you want to mail me a letter to my residence to the city of Charleston, that will be fine.

I notice where my port authority, which were very active over the years to develop trade, traveling to Latin America, all the way to Europe and many countries, is now giving a special construction program for a passenger facility in response to this increased passenger trade. It goes to and from right in front of my door, the distance from here to the back of the room almost, and these vessels are coming in and going out and the trade is on the increase. And it seemed incongruous to me that we are building up for the trade, the trade is there and the vessels are there, and yet the Congress is running around saying, well, I don't know, we have got to put people to work, we have got high unemployment, and we just passed \$2,225 million of what they call public service employment, just to run people around in parks and pick up paper.

We have spent about a billion dollars since last October, just in hiring any and everybody everywhere, just in anything we can think of. Here we have got a viable program going up to a point.

Now, where are we at that point? Has the Maritime Administration, in your opinion, or the Maritime Commission made a comprehensive study as to why we are not in this business?

Mrs. SULLIVAN. I believe they can answer that better than I. I have never seen such a study, nor the results of such a study. I have always felt that our Maritime Administration was responsible under our laws for keeping our maritime system great. Instead, in the past years, our merchant marine has gone down and down and down, until we are no longer the strong maritime Nation that we were a few years ago.

As far as the cruise business is concerned—I could be wrong on this, but I haven't heard anything to change my mind. We have never marketed the U.S. cruise business. You can pick up any travel advertisement, or look at any travel agency advertising in the newspapers, especially on weekends, and you never see our ships advertised, as we see those of foreign registry.

We still have four ships running from the west coast that are doing beautifully. They are still paying their way and making money. But next year the west coast is going to be invaded by a new cruise operation called the Viking Line which is offering the same cruises for almost half the price of what it costs to cruise on American-flag ships.

Now, we have never sold extensively the safety of our U.S. flag ships, the type of ship we have, and the quality of what we offer to a cruise passenger. The only thing I have heard from the proponents of this bill is that people don't care, you know, about all the fine qualities of the cruise ship—they are selecting the cruise offer only on the basis of cost.

I don't believe this is entirely true. I think if we sold our people on the fact that we have better-built ships, safer ships, et cetera—and

I think all we have to do is look at that beautiful *Queen Elizabeth* which burned in Hong Kong and see how it burned to utter destruction, to realize that our ships may be a little plainer to look at from the beauty standpoint inside the ship, because we don't use the fancy woods and carvings and decorations that they have on foreign ships, but if there is a fire, we have the best safety features that could be devised, and the fire would not spread as it did on this vessel.

But we have to sell this concept to the public.

As I say, and as brought out by Mr. O'Leary, the man who is making a very fine cruise port down at Norfolk—but not for our ships, because there are none of our flag ships on the east coast—the reason being that we have never sold our ships for cruising. He has been in the maritime business all his life, and I think he knows what the problems are.

Senator HOLLINGS. Do you find from your experience the propensity on the part of the Maritime Commission to want to rid itself of this responsibility in passenger line service, that they perhaps nitpick on the subsidy and everything else, nickel and dime to death on just exactly what the subsidy would be?

Mrs. SULLIVAN. I think we have had trouble obtaining subsidies for our cruise ships. But even with the subsidies—and I think we would have to get the figures—but even with the subsidies we would be gaining economically, because when our American citizens buy passage on foreign lines, not \$1 of that money stays in or comes back to this country. It all goes home to foreign countries. When you realize the amount of money that is going out of the United States, I think you will agree that we could afford to subsidize cruise service.

Senator HOLLINGS. I rather agree with you. I can see the difference in the wage scale perhaps. But when it comes to fundamental safety and practices, maritimewise, within the ports and on the seas, they would be practically the same, and if it is subsidized to the extent of the wage differential, seemingly we could at least maintain the vessels and compete and wait for better days.

Certainly no one would have a right to complain, because anyone who obtained the ships, even though the different lines perhaps may have changed in ownership, they would have no right to complain, because they knew what they were buying. They were subsidized to begin with.

Now, there is one offer that you mentioned of \$15 million to one of the lines that was turned down, you say, or was not given due consideration?

Mrs. SULLIVAN. Yes. Last fall when this legislation was scheduled to come up in the House there was an investor from South Carolina who said he had made an offer to Moore-McCormack to buy their two ships, and he had offered \$15 million. From what we understood, I think there was also a foreign offer of \$20 million. And the question was asked the American investor by the Press, would he go higher? He said he would not discuss that with anyone but the owner of the ships, which I think is right. But to my knowledge he has never gotten an answer from the Moore-McCormack Lines.

Senator HOLLINGS. I see we have listed Mr. Barker. I just had the pleasure of meeting him. He is listed to testify later this afternoon,

so we can get that answer in the record at that time. The writeoffs and everything else would be more applicable to him. I would be glad to question him at that time.

I think we are going to have to do everything possible to maintain this passenger service. It is just un-American to me to not be able to compete, and the blame perhaps is not with the lines or anyone else; it could be right here with the Congress.

Maybe the policy is wrong. But there ought to be some kind of policy economically—we have got the safety standards, we have got the safeness of construction and all the rest of the things. I think they have gone from one particular nationality to the other in crews in trying to economize on crews. But unless they tell me differently, it seems that that could at least be taken care of and taxes could be offset, balance of payment factors, these things, could be offset.

Is there something you wish to add?

Mrs. SULLIVAN. Someone just passed me a note that says Royal Caribbean Cruise Lines sends \$500,000 a week to Norway. Norwegian Caribbean Lines sends a million dollars per week to Norway.

Senator HOLLINGS. I was here with Senator Mansfield in the fall. We saw in Oslo ships being constructed, in Finland ships being constructed that would never see those countries again. They were being built for this Caribbean cruise trade. I mean mammoth vessels.

I sailed from Martinique to Granada a year ago, just on a regular sloop, and I saw some mammoth vessels in and out similar to the ones we are talking about, and they are making money.

Mrs. SULLIVAN. They are making money. I think there used to be a complaint that we cannot compete with foreign lines because of the manning of the ships and the wages that have to be paid to our American seamen.

Now I do not know whether the ships were overmanned. I do know that our American seamen have been paid wages based on American standards of living. If the subsidies needed are excessive because wage costs are not being figured properly, this is the time when I think the ship lines should get together with labor and negotiate these things because we have lost 5,000 jobs for American seamen on the ships that are laid up.

Senator HOLLINGS. Has there been any get-together attempted that you know of between the shipping lines and the union, Maritime Union?

Mrs. SULLIVAN. It is my understanding that the investor I referred to who was going to operate the ships if he could make a deal was working out an agreement with labor on the manning requirements and on wages and so forth that would enable the cruise operation to make money—to make it profitable.

Senator HOLLINGS. Thank you very much, Mr. Chairman.

Mrs. SULLIVAN. There is just one other thing I would like to add, and that gets back to the issue of our subsidy. It has been said that we would never get subsidies to run ships to accommodate only people wealthy enough to take cruises. But today, with the retirement of so many people who have saved their money and worked hard for it,

this is not something just for the wealthy. I think that we have many, many retired people who will spend this kind of money for a cruise—not just wealthy people. They are people who have worked all their lives and now want to relax and enjoy this delightful kind of a vacation. It is a lot more than sitting on the front porch of a resort area, or a resort hotel, with all the luxuries of nice living. If you transfer that to the deck chair of a ship, you find that people, once they have tried it or once they have been told about the wonderful kind of vacation they can have on the ocean, rather than just in one area at a resort, they are interested. But you have to sell it. We have to advertise what we have to offer. And this we have not done.

Senator HOLLINGS. In my back yards, in the last 2 years at least, the realtors, the bar association, the automobile dealers association within the State of South Carolina, and that was before the excise tax was taken off, they went on cruises. They had their regular annual meeting rather than at a resort hotel on a cruise ship.

Mrs. SULLIVAN. In places like St. Thomas, Nassau, and many other places, there are thousands of people coming off these cruise ships that are coming in—not just one but two and occasionally three ships in a port at once—and all under some flag other than the American flag. I just cannot understand why we cannot do the same thing with our own ships.

Senator LONG. I want to make one thing available to you, Mrs. Sullivan, and you can comment if you wish. I was reading from the statement to be presented by Mr. James Barker on behalf of Moore-McCormack Lines, and I see in his statement that he says:

I think it is important for me to point out to the members of this Committee that each time the bill was in the position to pass the House or the Senate, one or more potential operators said, "Stop everything, we want to buy the vessels for American flag operation." Each time there was a delay and each time the offers have proved frivolous. In fact, one company has scheduled several meetings with me; each time I made myself available, and each time that company canceled the appointment.

That is what Mr. Barker says.

Mrs. SULLIVAN. I have not heard that.

Senator LONG. Well, we hope to find out the answers to all the points that you have raised, and if you will leave your statement with us, I will try to see to it that we will raise those points of view that will answer those questions.

Mrs. SULLIVAN. I really do not have anything but a scribbled statement here, and I would hesitate to leave it, but if you wish, I could leave it.

Senator LONG. You made a very fine statement. Thank you very much.

Senator HOLLINGS. Thank you very much.

Mrs. SULLIVAN. Thank you.

Senator LONG. Now, the next witness will be Mr. Joseph Curran, chairman of the AFL-CIO Maritime Committee.

Pleased to have you with us, sir.

STATEMENT OF JOSEPH CURRAN, PRESIDENT, NATIONAL MARITIME UNION AND CHAIRMAN AFL-CIO MARITIME COMMITTEE; ACCOMPANIED BY MEL BARISIC; AND GENE SPECTOR

Mr. CURRAN. Thank you very much, Mr. Chairman. We are happy to have the opportunity to appear before your committee.

My name is Joseph Curran. I am president of the National Maritime Union of America, AFL-CIO, and chairman of the AFL-CIO Maritime Committee.

Our committee represents unions which comprise the bulk of workers directly employed in the maritime industry, some 250,000 who are members of the following unions, all affiliated with the AFL-CIO:

- National Maritime Union of America;
- International Longshoremen's Association;
- National Marine Engineers' Beneficial Association;
- International Organization of Masters, Mates and Pilots;
- American Radio Association; and
- United Steelworkers of America.

We are unalterably opposed to H.R. 11589, a bill to authorize the sale foreign of five U.S.-flag passenger vessels. Our opposition has the full support of the AFL-CIO, as expressed by President George Meany and by the AFL-CIO Industrial Union Department through convention resolution. The Seafarers International Union has also joined us in opposition to the bill.

This bill calls for the dumping of an entire American industry with the loss of thousands of American jobs, the transfer of millions of dollars of capital equipment to foreign interests, and the exportation of hundreds of millions of American tourist dollars further weakening our balance of payments position.

Such ships as the *Excalibur*, *Exeter*, *President Hoover*, *President Monroe*, *President Polk*, *President Roosevelt*, *Santa Paula* (old), *Santa Rosa* (old), *Lurline*, *Matsonia*, *Atlantic*, and the *America* were sold for operation under Liberian, Panamanian, and Greek flags over the last 7 years, thus increasing the competitive pressures on U.S. passenger ships. With the exception of the *Atlantic*, all of those ships were over 25 years of age when sold to foreign interests.

Now the Congress is being asked to turn over to foreign operation, ships which are less than 20 years old, among the finest and, without question, the safest cruise ships in the world, at a time when demand for the services of these ships by Americans is greater than ever.

The five ships involved in this legislation were built at a cost of \$137.7 million of which \$56.8 million represented the Government's contribution through construction differential subsidy.

We have appeared several times recently before committees of the Congress on questions involving U.S.-flag passenger ship operations. Our position has been made clear in those appearances. In our testimony we have made two basic points.

One is that America needs these ships—and it needs to restore them to operation—in the interests of our domestic economy and our

hardpressed international balance of payments position; because American ocean travelers must again be allowed the chance to choose American standards of safety and because these ships will strengthen our strategic capability and our international posture.

Our second point has been that there are qualified Americans who believe that they can operate these ships successfully and have put forward detailed proposals in connection with specific ships.

These proposals require the full cooperation of the maritime unions and we have given that with a degree of dedication that certainly demonstrates the recognition and acceptance on the part of our members of their responsibilities in the effort to restore these ships.

The proposals also require cooperation of the U.S. Government and of the owners of the ships and that has not been forthcoming. Every proposal put forward has been met automatically with a surge of negativism on the part of Government people and the owning companies.

The ocean cruise business out of U.S. ports is one of our fastest growing industries. Growth and prosperity in American industry are unfortunately hard to find these days. Yet, all the growth and prosperity of the booming east coast cruise business is being forced to go to foreigners.

It is interesting to note that the collapse of U.S.-passenger ship operations on the east coast came almost simultaneously with the emergence of a series of brand new foreign-built, foreign-registered ships.

The Norwegians invaded the Caribbean with the new ships of the Norwegian Caribbean Lines, the *Sunward* in 1966, the *Starward* in 1968, the *Skyward* in 1970 and the *Southward* in 1971; and Royal Caribbean Cruise Line which offered the *Song of Norway* in 1970 and the *Nordic Prince* and *Sun Viking* in 1971 with yet another still in the works.

The waters abound with every conceivable flag except the Stars and Stripes. There are old ships, renovated ships and new ships all competing for American dollars which amounted to \$215 million in 1969, and will more than double, to about \$500 million in the next few years. Cruise traffic out of Miami alone has swelled from 188,000 passengers in 1967 to over 700,000 last year, all of it going to foreign ships in the absence of any of our own.

As we pointed out in previous testimony on this issue, the failure to put the U.S.-flag passenger ships back into operation has deprived American seamen of some 5,000 jobs. Because of enlightened policies observed in our industry for many years past, a great part of these jobs, and some of the most highly skilled, were held by members of black, Spanish-speaking, and other minority groups.

Safety is another reason we gave for America's need of these ships. No foreign-flag ships, even the newest of them, meet American standards of safety. They cannot be required to do so under the present law even though they may be operating exclusively out of our ports.

The international (SOLAS) standards, which are all that foreign ships must meet, provide far less safety than our laws require. This has been demonstrated by the burning in the last 2 years of several

relatively new cruise ships. Those ships were in compliance with the latest international safety requirements at that time, yet they demonstrated vulnerability to fire that our laws prevented on our ships 30 years ago.

We also cited the value of these ships as defense auxiliaries and as contributors to our prestige in the world. If anything, developments in the world situation since our testimony have strengthened these considerations, particularly with respect to the value of U.S.-flag passenger ships to build greater understanding and respect for our Nation among people of other lands.

Since our last appearance on this issue, national unemployment has grown increasingly severe. Unemployment in the merchant marine has deepened to the point of crisis. This makes it all the more difficult to understand why Congress is taking up this proposal to surrender once and for all American participation in a booming industry, an industry for which thousands of loyal Americans have developed their skills and dedicated their lives.

The balance of payments situation, too, has reached the crisis point since we last appeared. The United States had a deficit last year for the first time in more than 50 years—a \$2 billion deficit, the worst in history.

The safety factor has been further highlighted since our testimony. The original *Queen Elizabeth* burned and sank in Hong Kong Harbor. She was old, it is true, but she was ready to reenter service under a new name and at the time she burned she was reportedly able to meet all that the SOLAS regulations required. The ex-*Queen* was scheduled to sail out of Los Angeles on her maiden voyage under her new title within just a few weeks. The fact that she burned when she did with no fatalities was probably a very lucky break for the hundreds of Americans who had booked passage on her.

We would also point out a fatal fire aboard the Liberian-flag *Freeport* one of the newer entries in the Florida cruise trade. Fortunately this was not a major disaster. But we should not overlook the fact that one person, a crewmember, was killed and that the company did not report this fact to the Coast Guard for almost 12 hours after the accident. Note also that the Coast Guard was not notified by the company that the accident had left the ship helpless in the Gulf Stream. She was allowed to drift all night without a call for help until the Coast Guard on its own sent out a tow. It may be that the owners were more concerned about the effect on business of a distress call than they were about safety at sea. It should be noted that this ship, with a capacity of nearly 400 passengers and 200 crew, did not carry a doctor, a fact that may have been the difference between life and death for the unlucky crewmember. Such sloppy operation would not be permitted under the U.S. flag.

Our union has continued to investigate various approaches designed to reactivate U.S.-flag passenger operations out of Atlantic and Gulf ports. We refuse to believe that American managerial ability in this field is inferior to foreign management.

As we testified earlier, the unions have met with several prospective operators. We have reached agreement on manning scales and on adjustments in our contracts—at considerable sacrifice on the part of

the seamen—which these operators believe would allow them to operate successfully and attract the necessary investment. The work the unions have done along these lines and the expressions of support we have had from our members are evidence of our full and whole-hearted commitment to the job of bringing the U.S. flag back into the passenger ship service.

However, private capital will be reluctant to invest in the American-flag passenger industry unless there is some demonstration that the Administration intends to provide reasonable support. This must include adequate operating subsidies. Subsidies do not constitute a handout, they would simply place Americans on an equal footing with foreign competitors. Without such assistance at the start we cannot revive our passenger ship fleet. Our efforts have not been successful because of the negative response which prospective operators have received up to now.

The Government has not indicated any encouragement to Americans to come forth, and as a matter of fact has had no one here to testify on this bill. We wonder why.

There is another possibility which we have just begun investigating, which we believe certainly merits thorough investigation. This is a pilot program whereby one or more passenger vessels would be purchased with employee participation in the ownership of the vessel and the sharing of corporate profits through an IRS-approved employee stock ownership trust. This technique, as proposed by Mr. Louis O. Kelso, a prominent San Francisco attorney and economist, is designed to enable a company to reduce the cost of buying its capital assets while simultaneously building a vested ownership interest for all of its employees.

Attached to this statement are reprints from well-known publications which describe the program in some degree of detail and its actual implementation in a number of sick industries needing a transfusion of dollar capital and improved employee productivity.

The Kelso approach can only work within the framework of an industry that can be made economically viable through the development of the necessary capital. We have attached a pro forma for the operation of a single passenger ship of the *Constitution* class. You will note an estimated profit of \$3 million annually at a total subsidy of slightly under \$5.6 million, a lesser amount of subsidy than was actually paid in 1967. Surely, if these figures are feasible, we can expect to turn an unprofitable operation into a successful operation which would spin off enough profit to provide employees with payments over and above their wages and build up equity in the operation.

In order to keep 1967 subsidy levels in 1972 and in subsequent time periods, labor costs would have to be slashed by about 50 percent from company estimates. This would require an enormous increase in employee productivity and reductions in certain benefits. Our members have indicated their readiness and ability to do what is necessary. The Kelso approach might provide added incentive and added income.

Employee participation in ownership of capital equipment and profit sharing would be a new approach for our union and we are not yet committed to it. But we want the possibilities thoroughly

explored. If this makes the difference in the readiness of investors to invest and of the Government to support U.S. passenger ship operations, we want to know it.

We believe that a reputable and capable consulting firm familiar with the maritime industry and acceptable to major lending institutions should be brought into the picture to review the pro forma. The firm hired would need adequate time to review the entire proposal and exercise its independent judgment as to the required capital structure, the accuracy of the income and expense figures and the manner in which profits would be shared. Such a study would change all of the figures offered to date by the current owners, pro formas prepared by prospective purchasers and the NMU estimates from speculation to facts. And facts are what we must go on.

We believe that the Kelso plan merits thorough and serious consideration. There are a number of questions which we have and so, undoubtedly, have others. But we believe there can be no question about the importance of considering this proposition positively and getting all the answers.

For this reason, added to all the others we have cited, we believe it would be untimely to act on legislation which is meant to resolve the problems of U.S. passenger ships by destroying all possibility of U.S. participation in this field. There certainly is no justification for considering legislation which would allow these magnificent ships to be dumped as long as proposals are being advanced which hold reasonable promise of successful operation under U.S. flag.

We have attached several documents attesting to the various aspects of the statement made.

I would like to point out at this time that we have been wondering about the disappearance of the famous ship, the *Empress of Canada*, and where she was going to. She now comes up under a new name called the *Mardi Gras*, and she will be sailing March 4 from Florida under the Carnival Cruise Lines, and the Carnival Cruise Lines is being operated by a high executive formerly with the Norwegian Caribbean Lines. So we have found her. She is in the Florida-Caribbean trade now. And we have learned from reliable sources that Holland-American Lines are ready to take over the *Brasil* and *Argentina* in March and spend \$5 million in renovating these ships and expanding their capacity, which is an investment now of some \$25 million, and they expect to make a considerable return on the investment.

So that these are some of the latest information that we have gotten in these operations.

Thank you very much.

On this side, sitting with me is vice president of our union, Mr. Mel Barisic, and on this side is Mr. Gene Spector, our research expert and an economist. No union is complete today without a research expert and an economist.

Senator LONG. Senator Hollings?

Senator HOLLINGS. Yes.

You are introducing those gentlemen, Mr. Curran.

Are you the young Mr. Curran or the old Mr. Curran?

Mr. CURRAN. I am the young Mr. Curran, and I have a younger Mr. Curran.

Senator HOLLINGS. The reason I asked you, you were all for the sale?

Mr. CURRAN. That I was for the sale?

Senator HOLLINGS. He was against the sale and you were for it, so I am glad to see you this afternoon straighten out one factor.

Mr. CURRAN. I have never been for the sale. My records are in the various hearings, the House, and everywhere I could get a voice against the sale of these ships. I was against the layup of these vessels. As a matter of fact, in 1969, when the layup of these vessels took place, the operators gave us no inkling of them being laid up, and as a matter of fact, joined with us in setting up a guaranteed pension plan calling for \$44 million a year to guarantee the funding of a pension plan, and the following 6 months after signing that agreement, some four or five passenger ships went down the drain, some 4,000 jobs went down the drain, and a deficit began to appear in the pension and welfare plan that the owners of other companies had to pick up. So that they never said anything to anybody, went ahead with negotiations on a business as usual basis, and then began the big layup of these vessels.

Senator HOLLINGS. When did that occur?

Mr. CURRAN. 1968, 1969, and 1970.

Senator HOLLINGS. I do this advisedly, because right to the point, you see, this came at a time at the end of the year when presumably those who were for the sale of the vessel had an option expiring by the end of the year, December 31, and the distinguished chairman on the House side impressed upon me that we didn't have any time for hearings, and we found some hearings had been held by our distinguished chairman in September on the very point, even though this particular measure was not heard. The matter of service was there. They brought that to me on Friday, before we were going to leave on the following week. But I was aware of the fact that you were for the sale, Mr. Hall was for the sale, and in fact everybody was for the sale, all labor was for the sale.

Mr. Curran, Jr., he had not been the one that had really impressed me one way or the other. I had been called in on this thing by Congressman Davis and just as a matter of interest was living right at the passenger vessel dock.

So Mr. Hall now is opposed to the sale?

Mr. CURRAN. That is right.

Senator HOLLINGS. If Mr. Meany came in, would he testify for the sale or against the sale?

Mr. CURRAN. He would oppose the sale.

Now, I might say at this point that the boy you are talking about is my son, a son in whom I have a great deal of pride. He spent 2½ years slogging up and down the Vietnam hills in combat duty as an infantryman, and he is home now, and he is a legislative representative of our union. He is the legislative and political action representative of our union, and does a good job.

Senator HOLLINGS. And does a good job.

Your statement sure sustains his credibility. I had never had the pleasure of meeting him, but I wanted to bring this out because I wanted to show some of the things that went into consideration in

even having a hearing here this afternoon, and some of the questions you raised.

Now, going down the list, you say that negotiations have been had and a willingness has been shown by the union itself to cut back on its costs, that is, on some of the benefits, and perhaps some of the wages themselves.

I forget the expression you use. But I remember you said in order to get things going that the union had offered on its part certain concessions, but the Government wouldn't take you up; is that correct?

Mr. CURRAN. That is correct.

Mr. Barisic, who is sitting here, is the vice president in charge of contract enforcement in our union and has been for several years, and he has met with all of these operators, those that were still in business and those that with prospective possibilities in reactivating these ships, and he has made great efforts and gone to great extent to cut the costs in these operations, and he can tell you for himself some of the things that he has done.

Senator HOLLINGS. Would you elaborate for me, Mr. Barisic?

Mr. BARISIC. Yes, sir. As far back as 1968 and 1969 we met with people of Moore-McCormack Lines, and also had some discussion with the United States Line, the President of the United States Line, just prior to the layup of the *United States*. I personally called the president of the United States Line, and I asked him—Mr. McMullen—I asked him personally if they had any intention to lay the *United States* up, and she was then scheduled for cruise, and mind you, without any advertising, that ship was already booked with 850 passengers, and a ship the size of the *United States* on the cruises go now maybe with 1,200.

That is the capacity, because they close some sections. So without advertising, she already had 850 passengers. When I heard that I called the president up, I said, look, before you do anything like that, we are willing to do anything you want. We give you a *carte blanche*, don't lay that ship up.

They went ahead and laid the ship up.

We also had a meeting with the Grace Line people, Mr. Rowland, and Mr. Smith, Mr. Spector and a few other people from the union.

We worked 6 months on changing the entire contract from top to bottom, manning scales, working schedules, working rules, overtime setup, and what happened? They told us, no, we do not want nothing like this to go into effect until January 1970.

I said, why. They said, well, we have some question about subsidy and things like that.

After we work out for 6 months, we had a contract already signed practically, changes from top to bottom, 1970 they lay the ships up.

The same thing we proposed to Moore-McCormack for the *Brasil* and *Argentina*, and mind you, we took a few men off the ship anytime a question arose, working schedules and so forth, *carte blanche*, like I said before.

I can go as far back as when the *Brasil* and *Argentina* were being built. I told the company, don't put this, don't put that, it cost a lot of money and you will never use it. But I do know what they were thinking then.

We met with people, like Mr. Sokolof, Mr. Williams, Mr. Matalon. We met quite a few of those people who have interest in American flag ships.

We come down to the question of the *Independence*, the manning down from 500 to 300.

Senator HOLLINGS. Cut the crew from 500 to 300?

Mr. BARISIC. That is right. We changed the port times, the schedule times, and so forth, and some were my own ideas, with the years of experience that I have in this work, and I spent all my life at sea. So what happened? We testify in front of the Commerce Committee, I testify myself in front of Mr. Long. We brought up the question of the *United States*, the fastest ship in the world, to be laid up, maybe you can use as a hospital ship, something like the Project Hope which we have in Brazil someplace.

There are a thousand other things we can do in order to save the American-flag ships. Up to now you always find—matter of fact, some people made a statement—even if you are on the ship free, without wages, you cannot make any money. That is to show you they do not have any interest in the ships.

Senator HOLLINGS. What cooperation, if any, did you get from the Government?

Mr. BARISIC. None at all. I have talked with some people in the administration.

Senator HOLLINGS. Who?

Mr. BARISIC. Some of the people. But actually listening to the testimony of Mr. Gibson, who testified himself in front of the Merchant Marine and Fisheries Committee, he does not see any future on the merchant marine passenger ships. This is the position he takes.

We asked to talk to them, explain the facts; if there is some cooperation between labor, management and Government something can come up. We are willing to cooperate all the way down the line.

The question which was mentioned before, we did not ask for more than what we had in 1966 and 1967, to increase the subsidies, we tried to work on the frame of what we have. The cooperation does not give it to us, by the Maritime Administration.

Senator HOLLINGS. What about the size of these vessels? Are they prohibitively large? The *United States*—is that prohibitively large to operate economically or not?

Mr. BARISIC. My experience, what I have, at some 30 years at sea, working in the maritime industry, the *United States* is a big ship. She will be a perfect ship for the cruises. Instead of having four classes on the ship, you make two classes, make one class, something on the basis of what the *Rotterdam* had.

You can carry 1,400, 1,500 passengers. You can get the North Atlantic during the summertime, wintertime, going on cruises. She is a perfect ship for it. There are a lot of things that can be done on the ship. The *Independence*, too, is another type of ship which can be converted to a one-class ship, which they did already some-time back—not for point to point, but cruises. To show what is happening down in Florida, I have been on board four or five of the ships myself just to see what is happening.

A lot of changes can be made in the overall operation. Could be one company sent up to operate all ships. One company decide upon it, one operation, instead of having five or seven or six like you have before, combine those seven ships into one company, where with the cooperation of the Government, management and union I think we can make it. You can save thousands and millions of dollars overhead. This was told to the union as far as 5 or 6 years ago.

We had a meeting, we suggested a program, combine the six and seven ships together in one company so you can save that overhead. Millions and millions of dollars worth of overhead. Get a little more advertising, which Mr. Curran mentioned here.

Friday I open *The New York Times*, Friday, two pages on the *Queen Elizabeth II*. Never such advertisement was put up for any American flagships. I think the union did more advertising than the companies. So combining some of these ships together.

Talking about the Grace Lines ship. Here is the Grace Lines. They carry a lot of cargo. She is a 300-passenger ship. Maybe short cruises with that, or something like that.

If there is any cooperation given to us by the Government and the Maritime administrators, something can be done.

Senator HOLLINGS. How many passengers does the *Rotterdam* carry?

Mr. BARISIC. About 1,100 passengers, one class.

Senator HOLLINGS. About 1,100; and the *United States*?

Mr. BARISIC. About 1,700.

Senator HOLLINGS. The matter of overhaul now, the ones that are laid up, would carry approximately how many, say, for defense role, like we had the Cuban uprising—

Mr. BARISIC. I remember that very well. We were on standby ready to use the ships. I think Mr. Curran attended a meeting of that.

Senator HOLLINGS. Would you elaborate on that, please, for us?

Mr. CURRAN. Yes, Senator. We were called down to Washington on a very hush-hush mission, and we met over in the Old State building, and the subject there was readying eight passenger vessels for a possible invasion of Cuba, and the readiness was supposed to be on a 24-hour basis.

The *United States* carried 15,000 troops, fully equipped, and the other ships, the *Brasil*, the *Argentina*, were to carry 4,000 troops apiece, and it went through a whole business like that, and the unions were all put on the alert, everybody was cooperating, everything went fine, it was a very secret meeting, nobody opened their mouth, and the crisis passed, of course, but we were all there.

Now, if these ships go down the drain you will have nothing but our so-called friends to call upon to get a ship if you need it. And our so-called friends today might not be our friends like they were yesterday, and you might have to go begging for a ship.

But aside from that, we investigated some of these cruise ships out of Florida. They get their crews from all over the world. They get them from everywhere. Fly them in.

I made a proposition to one of them down there, why don't you put those jobs on the board for Americans? Americans might take

them. After all, in the steward department there is a possibility of making a living by tips, and they would be willing to take them.

They said, no, sir, no American seaman will ever step aboard one of these ships.

Senator HOLLINGS. Why?

Mr. CURRAN. They just do not want them. They just do not want American seamen on these ships. They want to be able to blackmail these seamen that they have got on there. If these seamen make any kind of attempt to change any condition which may not be liked, they are immediately shipped back to wherever they got them from, you see, and they can handle them.

They are afraid that the American seamen might conceivably ask for better conditions. The waiters on one of those Norwegian cruisers get no wages, they get tips, that is all. So that that is the difference, you see. You cannot compete with that kind of thing. There is no question of competition there.

Now, over in Europe, if an American ship comes into a European port, you are immediately taxed, head taxes, everything else. They operate freely out of our ports, take our citizens, do as they please, ship their money back to the Norwegian banks.

They buy nothing here. They buy their fuel over in the Bahamas. They buy whatever vegetables and stuff they can from there. They ship in their canned goods and stuff. Nothing comes here. They take out but put back nothing.

Now, we have created in this country a new industry known as leisure, and it is an industry, believe me. People are getting longer vacations. They have got more capability of enjoying it because they are paid decent wages in this country, and yet they have to stand in line at a foreign flag vessel to spend American money that is shipped abroad.

Now, some of that money should be funneled back into the United States. I would say the least that can be done, these people ought to pay a head tax for the ability to operate out of our ports and get the service they do.

The one that responds to them when they have trouble is who? The U.S. Coast Guard. The United States resources is what takes care of them. They do not put a nickel in an American bank if they can avoid it.

Senator HOLLINGS. You sound very persuasive to me. I just can't understand the policy. Has there been, to your knowledge, as head of the union itself, any kind of comprehensive study made to try to devise a Kelso plan or a different other kind of plan or anything? A comprehensive study made by the Government itself, either the Maritime Commission or the Maritime Administration?

Mr. CURRAN. We have promoted the idea of studying the situation more carefully before dumping these ships. We have raised this question with Mr. Gibson.

Senator HOLLINGS. What did he say?

Mr. CURRAN. He said there is no possibility of operating these vessels. There is nobody interested in operating these vessels. And then he comes up with the story that if we do sell these vessels it will enable our operators to take the money that is developed from the sales and build new ships providing more jobs.

Well, examine it. They can build for the \$20 million that they get for this sale possibly four ships they say, and the four ships will employ they say 400 people. We say the four ships today will not employ much more than 80 people. And the four ships built will replace—each one of them will replace at least 35 ships because of the new innovations, the high speed, the double loads of cargo, and all the other things.

We have laid up over 300 ships, and we are now in the posture of laying up another 150. When the Vietnam war is over our fleet of merchant vessels in this country will have shrunk from some 700 down to less than 300. And the ships that we have put into service thus far in replacement of them are not more than 20. The 30-ship program a year has developed only four ships that are not yet built. They have just been contracted out to the shipyards. So for 3 years, no ship except these 20 that I speak of have been built, and they were on private order.

So instead of creating jobs, every ship that is built today, because of the reduced manning scale, the high speed, the larger tonnage, the more compacting of cargoes, replaces anywhere from five to 10. The Lash ships and the Seebee-type replace as high as 15 ships. So to say that the four ships being built as a result of eliminating five passenger ships is going to add new jobs is being ridiculous. Five thousand jobs go down the drain. We have a proposition that the sale will enable them to build four ships containing—I think it is 28 men a ship?

Mr. BARISIC. Twenty-six.

Mr. CURRAN. Twenty-six men a ship. That is the new manning scale. We used to have 40 to 45 on the conventional ships. The technological improvement on these ships is such now that we think eventually that robots will man lifeboats. I don't know what they are going to do if a salvage call goes out.

The Japanese have a ship today I understand that is in experiment that carries only six in the crew and is 175,000 tons in capacity, with only six men in the crew.

Now, they couldn't even man a lifeboat.

So that when they say they are creating jobs, I think the question should be asked of them, 700 ships, less than 300 ships, what is meant by the creation of jobs. It just doesn't exist. And I would like very much for the Senate in its wisdom at some time or other to investigate how these ships operate out of American ports, bring seamen from all over the world, and an American seaman is not given the right to sail on any of these ships when they have a vacancy, while on the other hand, on our ships, no matter where they are in the world, if there is a vacancy, and there is a seaman available, whether he is an alien or what he is, he gets the job on that ship, and when he gets back to the United States they transport him back because of the immigration laws here.

But an American seaman can be stranded anywhere in this world, and unless the American consul, the ambassador in that country takes that poor unfortunate seaman and helps him get back home, he doesn't get back home on any job, and yet he is an efficient seaman, and he can ship on any ship.

Senator HOLLINGS. I am sure I know your answer, Mr. Curran, but what about the claim that, after all, business is business, and American businessmen of that type do not make a dollar, and if it is possible for them to make a dollar, but it is the union that has priced itself out of business and the passenger trade out of business?

Mr. CURRAN. As a matter of fact, I am glad you asked that question, because we made an offer for the operator to put his own wages on the table, the wages that he would be willing to pay an American seaman and pay his rent and pay the landlord here and buy his food here.

Senator HOLLINGS. Would it be all right to ask whom this was?

Mr. CURRAN. We made it to the operators as a whole sitting across the bargaining table, in New York City, the last time we negotiated in 1968. We laid it on the table. If you think that it is going down the drain because of American seamen's wages, will you put on the table a package that you think you can live with and make a profit, and at the same time, secure those seamen with the social requirements that they need not to become public charges? Will you put it on the table? And they never put anything on the table.

You are not going to compete, Mr. Senator, with Hong Kong seamen, who get \$20 a month, a barrel of fish and rice, and live on a mat. You are not going to be able to compete with them. So that is not the question here

As a matter of fact, the Holland-American Line that is buying these ships can't pay European seamen's wages. They are dumping all the Holland seamen off of their ships and putting on Indo-Chinese seamen. The British are doing the same thing. The Norwegians who run those cruise ships carry only Norwegian officers and engineers, and that is only because of a safety requirement of their own country, and the SOLAS. They hire in the Bahamas, they hire in Trinidad, Italy, Greece, anywhere they can get them, and fly them over here and fly them back, and put them on those ships.

So this question of the seamen's wages and so forth, they are a myth. As a matter of fact, Norwegian, Swedish and Danish seamen have better conditions than we do, because they have legislation that gives them low rent, gives them annual wages guaranteed, all sorts of social legislation that we don't have. We get wages, and we have to buy these things at the same market price that every other citizen buys them. But the seamen in Europe, the British and the rest of them, a lot of these things are given to them at large discounts as long as they are available for employment.

Senator HOLLINGS. You said you sat down in 1968 and made this proposal. Has there been a change in the ownership of the different lines, like Grace, Moore-McCormack and all the big lines, from those who fundamentally started and developed and were primarily interested in shipping and in passenger trade now to what you might call financial and economic whiz kids in the sense that they are smart, they know what is a loss and what is a gain, and what cause them, and what in turn makes them a profit, and therefore feel that as a holding company they ought to turn around some of these

operations, that their obligation is not to develop a maritime industry or trade or a passenger vessel carriage for the United States?

Have you got any observation about that, because I understood some of that, too, at the end of the year. I am getting all kinds of testimony over the telephone from anybody and everybody, and this is the first time I have had a hearing to ask anybody with any intelligence what the real fact was.

Mr. CURRAN. Thank you, Mr. Senator, for attributing intelligence to us. I would like to say this: That the gentlemen that operate the lines today are personally very fine gentlemen, there is no question about it. But the whole industry has changed. It is now held by monopolies. The Walter Kidde Co. is one of the big monopolies that is holding the United States Lines and others, and they have brought in people to operate these lines on the basis that you either make a dollar ten cent dollar, or we sell it. They don't have any latitude, in other words, like these ship owners of old.

As a matter of fact, we have only one ship owner left, in the true sense of the traditional ship owner, and that is James Farrell, a very respected gentleman, and incidentally his company is doing quite well. I got a Christmas card from him, and he says that his line is doing quite well.

Senator HOLLINGS. Where is he? Where did he send the Christmas card from?

Mr. CURRAN. Sent it to me in New York.

Senator HOLLINGS. Well, I got one from down in the Bahamas. Go ahead.

Mr. CURRAN. I have great respect for the gentlemen trying to operate the lines. I don't think they have the vision, the perspective and the feeling for the industry that we do, and that is natural, because after all, like you say, they are whiz kids, they are smart on the question of finance, and anything that doesn't make that dollar ten cent dollar, has to go by the board. They don't care about the tradition or anything else. I know they do care about such things as national security. I think they should care a little more about it, because in dumping these ships here, we are left with nothing.

I might call your attention to the fact that there was a Portuguese ship, a few years back, the *Santa Maria*, that was kidnapped on the high seas, and if it wasn't for an American destroyer following her all over the place, Portugal would have never got that ship back. And if we are counting on getting these ships from these countries that are so-called friends, I would hate to be waiting in line until they deliver those ships to us to carry our troops and our material to where they may be needed.

Senator HOLLINGS. Thank you, Mr. Chairman.

Senator LONG. The last time we held hearings on this, and I am sorry you weren't here, Mr. Curran, I did the best I could to get the information made available.

The testimony of the operators Mr. Barisic, was that assuming they accepted the suggestion that you could reduce operating costs, that the ship operation would still be so expensive that they couldn't compete with other types of shipping, I guess, what we call the

liner trade, where they are carrying cargo. You are aware of that, I believe? Did you hear testimony to that fact?

Mr. BARISIC. Well, this is what Mr. Curran said. We can't work for \$20 a month. The question of making money is also part of the subsidy, and like I said before, one of the companies, and I believe it was the United States Line, said we can't make money if you run the crew free of wages. So they have no intention to run it.

The point is that we have to have some subsidies, and the question is the full operation. Like I said before, instead of having seven different passenger ships and seven different companies, and each company having their own advertising agency, their own port captain and all that, combine the ship into one company and save millions and millions of dollars overhead, and have full cooperation which I personally discussed with Mr. Curran, have a free hand, say, go ahead, do the best you can.

But as you know, some type of service, people have to be there. All this thing was explained not once, but quite a few times. So there are a number of responses to that, which I mentioned before, including the company itself. They just don't want to bother with it. They just don't want any part of any passenger ships and they don't care.

Mr. CURRAN. Mr. Chairman, I would like to point out one small fact. We met with Mr. McMullan, who is the president of the United States Lines when they were taken over by Walter Kidde, and at that time we heard a very strong rumor that he was thinking in terms of keeping the ship in operation but putting her under foreign flag if he could get the permission of Government, and I went to him and said, "Let me ask you something. This may be far out, but if you put that ship under foreign flag, can we make a deal with you to carry American seamen?" And he said, "No, I wouldn't carry American seamen."

So that the question of American seamen in this thing here is something that, first of all, it don't count, because if he say even carrying them free, it won't make any difference, they can't operate. Then when you make an offer to carry them at any wage, they don't want to carry them. So there is no interest of actually running these ships by these same people. It looks like there is almost a deal made to get rid of these ships and to make a profit and get rid of them, and somebody is getting paid off for it in the industry.

Senator LONG. I want to strengthen the American merchant marine and have a lot more seamen out there sailing. I favor operating subsidies and construction subsidies, whatever it takes, to make America the maritime power she once was.

Now, if we do what you are asking us to do, and all we do is simply leave those ships laid up, collecting more rust, I don't feel that we have achieved anything.

If we can put those ships back to sea and have them operating, providing a service, providing jobs for American seamen, I would feel as though we did the right thing. So I am looking for the facts. I am trying to consider both sides and do what is best in this nature.

I see you want to add something, Mr. Barisic.

Mr. BARISIC. Yes, Mr. Chairman.

Talking about the industry, and excess costs on board a ship, I would like to remind you that we have some seamen which was the first industry that was actually automated, right back when we went from oars and sails and coal and everything else.

Talking about manning of the ships, we were the first industry who accepted the automations, down to 26 crewmen from 35 and 38. Right now, I have blueprints in my office of the oldtime ships which were bulk and ore, where we were talking about a 15- or 16-man crew, and the ship is 15 times bigger than the regular conventional ships.

So over the years, Mr. Chairman, we as laborers, maritime seamen, we took that into consideration, more so than the company themselves.

We, ourselves, say you don't need that many people. On a passenger ship especially. Moore-McCormack ships, the *Brasil* and *Argentina*, you don't need a crew baker and a passenger baker. Bread is bread. Nevertheless, they put the crew bakers and they put the passenger bakers. I can go through a story and be here all day and all night, Mr. Chairman.

So when they talk about excess baggage on the ship, we are willing to man a ship with 10 men on deck, and believe me, those are now ships of monstrosity, compared to the old conventional-type ships. On the passenger ships, the same thing. We are talking about cutting corners here. We are talking about cutting overtime here. I, myself, being a union man, explained to the company, that you can cut corners here, here and here, so all through the years, Mr. Chairman, as a seaman, as an American seaman, we took those things in consideration, way back when the first automated ships who come out in the water. Create new ratings to displace the fireman and the oiler. We create one man to handle both of those jobs. So that we have some history behind us that—maybe Mr. Curran said maybe we have more interest and more heart for the American ships than the steamship company itself.

Senator HOLLINGS. Mr. Curran, as I understand, Mr. Barker will testify here in a moment, and he is the president of the Moore-McCormack Lines.

Have you had any opportunity to discuss with him to what you have testified before the committee this afternoon, any efforts made to cut costs, to get these ships back under an American flag and operating?

Mr. CURRAN. We have had many discussions with Mr. Barker, but I must say that in the discussions previously carried on with respect to cutting and operating these vessels, he was not yet with Moore-McCormack at that time. He came with Moore-McCormack recently. So we haven't had too much opportunity to discuss the questions with him. What little time we did have, we did raise with him all the things that we could do in consideration of keeping the vessels operating.

Senator HOLLINGS. Well, now, what about the plea that has been made that there has really been a change of circumstances in that when these vessels were originally subsidized, you had the large trade, Atlantic trade and everything else, England and all the rest of them are really cut back. So due to a change of circumstances it would be equitable to dispose of the ships of foreign ownership because

the original trade for which it was built, or was able to be built, let's say, is now gone out of business.

What is your answer to that?

Mr. CURRAN. Our answer to that is this is true, so that other countries are building their ships to meet a new trade. And the Norwegians are a good example of that. They have built these beautiful ships. They are the finest equipped ships you have ever seen. And they are taking advantage of the lucrative cruise trade. You have some 10,000 people employed by the Government here alone who go to foreign destinations for Government, diplomatic and other reason, many of whom don't want to fly. They have access to only a foreign-flag ship to get to a destination.

There are times of the year when these vessels can make a go of it on a liner operation and there are times of the year when they can make it on cruisers, and that is what they are doing in these different countries.

Now, one of the things that has happened in the American steamship companies is they have used these passenger vessels to reflect the losses of the entire line. They have laid the financial deficit over onto the passenger ship operation, so that a lot of it is not the kind of calculations that it should be, and as a result they have shown passenger ships making bigger losses than they really were making. They use their financial ability to spread it over the whole line. But these countries who want the dollars coming in are taking advantage of all new trades, new operations, and moving into fields which we abandoned. We abandoned it to them.

Now, I will say this to you: The United States, through its laws and properly so to protect its citizens, have made it very expensive to build an American passenger ship and live up to the safety requirements required by the laws of the land. This is not true of a foreign flag vessel operating in the same trade carrying the same American citizens. So that they are able to build a ship much cheaper and get away with much of the safety requirements that is required on American ships.

Senator HOLLINGS. Are these continuous?

Mr. CURRAN. They are built into the ships. The United States, up until a few years ago, had one piece of wood on the whole ship, and it was a piano, and they afterwards took that piano and got a fiberglass piano, and they had a meat block. Those were the only two pieces of wood. Everything else was fiberglass and fire resistant, throughout the whole ship. She was a classic for fire resistant material.

Senator HOLLINGS. Are the ships, *Brasil*, *Argentina*, *Santa Paula*, *Santa Rosa* and *Constitution*, adaptable to the Caribbean trade?

Mr. CURRAN. They are adaptable. The *Argentina* and the *Brasil* have been on that trade. They are on the South American-east coast trade.

Senator HOLLINGS. Do you know of any labor organization that supports the sale of these ships?

Mr. CURRAN. No, I don't.

Senator HOLLINGS. The reason I asked that, I was told——

Mr. CURRAN. Wait a minute. I think there is a Teamster local some place that supports that.

Senator HOLLINGS. That is the only one you have heard of in your experience?

Mr. CURRAN. That is right.

Senator HOLLINGS. I have no further questions.

Senator LONG. I have one bone to pick with you. As one who wants to help the merchant marine, if I am going to do something to help this group, you people need to get together.

I feel like Mike did in that story about Pat and Mike out fishing. Pat fell overboard and he shouted "Save me, save me," and so Mike reached over and he grabbed him by the arm and the arm came loose, Pat had an artificial arm, "Save me," so he grabbed him by the leg, and he had an artificial leg, and that came off, and Pat was about to go under for the third time and he grabbed him by the hair, and his toupee came off, and he said, "Pat, how in the devil can I save you if you won't stick together?"

Now, if your people could get together on something, I would be glad to lead the charge for you, but when you fellows come in here one group in one direction and the other group in the other direction, the only thing the Government can do is get busy with other matters and say, well, we will talk to you when you fellows can get together on something. I invite you to hear what the next witness has to say, and perhaps we might offer you an opportunity for rebuttal, and maybe offer them an opportunity for rebuttal to rebuttal.

We invite you to stick around.

Thank you very much.

Mr. CURRAN. Thank you very much, Mr. Chairman.

(The attachments to the statement follow:)

*Pro-forma operating results S.S. "Constitution" type vessel*

Expenses:

Vessel operating:

Labor cost.....	\$5, 500, 000
Subsistence—crew.....	275, 000
Subsistence—passengers.....	1, 122, 000
Stores and equipment.....	500, 000
Maintenance and repairs.....	750, 000
Fuel.....	1, 250, 000
Insurance.....	1, 000, 000
Other vessel expense.....	300, 000

Total vessel operating expense..... 10, 697, 000

Passenger and terminal expense:

Agency fees and commissions.....	125, 000
Wharfage.....	200, 000
Other port expenses.....	125, 000
Baggage handling.....	750, 000
Brokerage.....	1, 250, 000
Other voyage expenses.....	100, 000

Total passenger and terminal expense..... 2, 550, 000

Total voyage expense..... 13, 247, 000

Depreciation.....	500, 000
Overhead and advertising.....	1, 250, 000
Interest expense.....	125, 000

Total operating expense..... 15, 122, 000

## Pro-forma operating results S.S. "Constitution" type vessel—Continued

Revenue:	
Passenger.....	12, 240, 000
Other.....	350, 000
Total revenue.....	<u>12, 590, 000</u>
Net loss before subsidy.....	2, 532, 000
Annual subsidy:	
Labor at 80 percent.....	4, 400, 000
Maintenance and repair at 50 percent.....	375, 000
Insurance at 67 percent.....	670, 000
Subsistence—crew at 50 percent.....	137, 500
Total subsidy.....	<u>5, 582, 500</u>
Net profit after subsidy.....	<u>3, 050, 500</u>

NOTE: In 1967, last full year of operation for the *Constitution* and *Independence* operating-differential subsidy was \$12,024,000 or about \$6 million per vessel.

## Attachment 3

[From Trends in Management/Investor Relations, New York, N.Y., February 1971]

## KELSO REVISITED . . .

Must all new capital be financed from past savings? Or, can capital be acquired purely on credit secured by future income?

Although raising capital on credit is not a new idea, it suffers in practice from the limits placed on the credit markets by traditional approaches to corporate financing theory. Basically, the market today finances all newly formed capital through the use of past capital accumulation.

Readers of Trends will recall previous editions dealing with the ideas of Louis O. Kelso, the San Francisco lawyer who has for some time been espousing a theory of planned ownership, calling for the liberal use of credit to enable employees of corporations to purchase equity securities on a *self-liquidating* basis—just as corporations normally acquire capital on a self-liquidating basis.

Now, as reported last month in *The New York Times*, Kelso's theory has begun to move boldly into practice in the United States, with the adoption of employee stock ownership plans based on it by two significant corporations: The Statesman Group, Inc., an Iowa insurance holding company, and Watts Manufacturing Company, the corporation set up by Aerojet-General Corporation to provide useful and profitable employment to the residents of the riot-torn Watts section of Los Angeles.

These two companies have joined a growing list of Kelso adherents. The company that owns The Palo Alto Times, The Redwood City Tribune and The Burlingame Advance newspapers has a Kelso plan in effect. So does the First California Company, a brokerage concern that was formerly part of the Rheingold Corporation. Valley Nitrogen Producers, Inc., of Fresno, Calif., is also on the list.

Impetus for these plans comes from a series of books written by Kelso, two of which—"The Capitalist Manifesto" and "The New Capitalists,"—were co-authored with philosopher Mortimer Adler. The most recent Kelso book, co-authored with political scientist Patricia Hetter, is called "Two-Factor Theory: The Economics of Reality."

## TWO-FACTOR THEORY

The thesis of "Two-Factor Theory" is that by conducting our nation's economic affairs as if labor were the only factor of production, we have overlooked the power of the other factor: capital. We have also overlooked the importance of enabling additional millions of people legitimately and efficiently to acquire ownership of viable capital holdings as our economy grows. Capital ownership in the hands of the 90 per cent of American families who presently own no significant amount of productive capital could have a tremendous

effect on purchasing power as well as upon the growth of corporations. Up to now the question of broadening the proprietary base has been how it can be done within the political and social framework of the country. At the risk of oversimplification, Kelso's books show various means through which people could participate to a greater extent in ownership of capital without taking away any of the capital of existing owners. Kelso calls these means his *Second Income Plan* financing technique.

One of the most interesting parts of the "Two-Factor Theory" treatise is found in Chapter 16 of the book, which outlines a method of generating capital holdings for corporate employees. Here, Kelso reveals an exciting method for making employees capital owners, while at the same time providing the company with an elegant new vehicle for financing new capital formation.

The technique utilizes conventional employee deferred compensation plans and trusts, but in a way which differs radically, the authors say, "both in principle and in effectiveness from such plans and trusts in general use today." Kelso points out that this highly effective device can motivate employees; enable stockholders of closely-held companies to sell part or all of their holdings to employees, who can buy them with pre-tax corporate dollars without diminishing their savings or take-home pay; provide financing for corporate growth; or enable employees to purchase a subsidiary or division of a conglomerate that is shedding some of its holdings. In each instance the project may be financed out of pre-tax earnings, without dipping into the employees' pockets or paychecks. In other words, the employee is put into the same tax situation as the corporation itself, which ordinarily only acquires productive capital on terms where the capital must *pay for itself*.

The implications of this concept are enormous. If applied widely, employees could painlessly acquire significant equity ownership of the companies for which they work. Under the same plan, the same employees could acquire equity in other corporations as well. And, it would be painless for the economy, too, since consumer purchasing power would remain completely intact.

The key point here is that the plan deals exclusively with *future* savings, rather than with savings already accumulated as in the case of the ordinary employee stock purchase plan. Moreover, the employees' future effective purchasing power can be dramatically increased because he will be participating in the production of wealth through capital ownership as well as through his labor. This is the essence of the two-factor idea.

#### POLITICAL AND SOCIAL IMPLICATIONS

The idea that purchasing power can be increased by means of a *second income* derived from equity ownership is the subject of a major portion of Kelso and Hetter's book expounding the "Two-Factor Theory." They suggest that this concept could be an interesting and dynamic alternative to welfare and other redistributive schemes conventionally used by governments, all of which are failing to meet their objectives and are under widespread attack by taxpayers as well as the beneficiaries of the welfare system.

Kelso attacks conventional ways of dealing with poverty as being inadequate. Under his definition of poverty, practically everyone who relies exclusively on his own labor for his income falls into this category. He suggests a number of legislative innovations, including substituting his *Second Income Plan* for the Full Employment Act of 1946. Employment, he explains, is not the only means of engaging in production, but participation by the individual in production through capital ownership is also important and is often the most efficient way: thus maximum participation in income-producing activity yields both employment income and the income rewards of owning a viable capital estate. In discussing the dubious propriety of condemning our nation to solve its purchasing power gap solely through full employment and welfare payments, Kelso suggests a form of legislation needed to utilize the concepts of the *Second Income Plan*. In the meantime, he says that we should really concern ourselves with the day—perhaps two or three decades hence—when we will have a sufficiently large capital accumulation so that we will not need to be fully employed, and how we must be educated to enjoy the shorter work days resulting from the leisure accruing to the worker then deriving an increasing proportion of his income (perhaps most of his income) from his capital.

Readers may wonder what the connection is between a most interesting, and now functioning, approach to the broadening of employee holdings of stock and

the subject of investor relations. One of the more obvious answers is that this technique, by placing stock in employees' hands, may help the numerous tender-prone corporations of America to offset the dangers of increasingly institutionalized holdings of large blocks of stock, which can in turn be easily mobilized for takeovers. In other words, making employees instant stockholders in ways that enable them to pay for their stock out of the capital it represents can be a desirable way to defeat takeover bids and to motivate the corporate team.

It should also be clear that this is an answer to the question of how to finance new capital formation for capital-short enterprises. With the cost of capital at a record high, and the limits placed upon the market by adhering to traditional theories, the Kelso approach is particularly worthy of consideration.

From a broader view, what the "Two-Factor Theory" really proposes is a thoughtful dissection of the socialist concept of state ownership. The alternative is to facilitate true capitalism by enabling everyone to have a significant *piece of the action*.

While few of us in the business world lose any sleep over Marxist theory, many students and social activists today are looking for an alternative to our current version of capitalism. They are not only interested in developing practical solutions based on Marxist doctrine, but they are becoming intrigued as well with the ideas put forth by other radical socialist philosophers. The free democratic society which protects us all provides the means, through political action, to have new strife-provoking programs of wealth redistribution adopted. Witness the recent free election in Chile in which a Marxist president was elected.

#### THE PLAN IN PRACTICE

The Watts Manufacturing Company was organized to help impoverished people get off the welfare rolls. When Chase Manhattan Capital Corporation, a subsidiary of Chase Manhattan Bank, purchased the company's stock from Aerojet-General, the plan was to carry the purpose of the company one step further than just to provide jobs to a group of unemployed individuals. Chase Manhattan decided that the Watts workers should buy ownership of the company, and, after retaining 20 per cent of the stock as an investment, sold 80 per cent to the employees of the corporation through an employee trust. The trust will pay for its stock out of future pre-tax earnings over a period of ten years.

As Robert J. Cole described the situation at The Statesman Group, Inc., in his article for *The New York Times*, "The Company needed \$1.8 million. It could have raised the funds by selling stock to the public, but this would have cost the company about \$360,000 in fees of one kind or another.

"Statesman went to the American Fletcher National Bank and Trust Company of Indianapolis. The bank granted the funds to the company through an employee stock ownership plan. Acting as trustee for the plan, the bank bought 334,884 shares of the company's stock.

"The bank will get its money back as the company makes annual payments to buy the stock on behalf of each employee in relation to how much he makes. Dividends paid on each share will help pay off the loan even faster.

"Under tax law, since the money is paid into the employee trust, the company pays off its loan in pre-tax dollars instead of after paying taxes. The legal fees and other costs are a fraction of what they would be otherwise."

Other companies can adopt a similar plan. Instead of going directly to banks and other financial institutions, or to the stock market, when it needs capital, the corporation sets up a trust, which then borrows the money against a guarantee given by the company. The trust will then be able to meet two objectives: one, broaden the ownership base of the company, and two, eventually provide the income from securities ownership that will help free mankind from total reliance on his labor for his living. This is what technological change is all about. The propertyless man becomes an owner of capital that embodies technology itself.

Is Kelso's theory the solution to the problems that plague our civilization? Kelso has been espousing his theory for a long time, and many learned economists look upon it with disdain. But the tide may well be turning, as recent events seem to indicate. Robert G. Sherrill, writing in *The Nation*, commented not long ago, "the chances are good that Louis Kelso will, during the next

year or so, become as much of a fad in the world of economics as Marshall McLuhan has become in the world of communications." "Two-Factor Theory: The Economics of Reality." By Louis O. Kelso and Patricia Hetter. Vintage Books. New York. \$1.65 Paperback.

[From Business Week]

#### FINANCE—GETTING EMPLOYEES TO PUT UP THE CAPITAL

(A San Francisco banking house exploits an idea started by lawyer Louis Kelso)

Bangert & Company, a small San Francisco investment banking house, was set up six months ago to specialize in a novel financing scheme that has been attracting lots of attention from some mighty big players.

In simplest form, Bangert helps a company raise capital by selling stock to its own employees. The basic idea comes from Louis O. Kelso, a tax lawyer and economic theoretician who became famous for his so-called "radical capitalism." Kelso, a director of Bangert, sees an important social benefit in giving employees a chunk of the equity, and his scheme also provides hard-cash savings for companies through a tax shield.

#### FIRST CUSTOMER

Bangert's first chance to show what its plan could do came when Steiger Tractor, Inc., of Fargo, N.D., found it needed \$1-million over the next two years. Steiger opted for Kelso's employee stock ownership trust (ESOT), also called second income plan (SIP). Within weeks, Bangert had arranged a \$1-million loan for Steiger's ESOT through the Chase Manhattan Capital Corp., the small-business investment arm of Chase Manhattan Corp. Steiger's 110 employees were made stockholders, with tax advantages to the company. With conventional debt financing, only the interest is tax-deductible; with an ESOT, payback of the principal is, too.

Now, months later, Steiger's controller and vice-president for administration, Hugh R. Morris, is happy with the plan. "We found that it happened to be just about right for us," he says. Louis Allen, president of Chase Manhattan Capital, is also pleased with the concept and says he is working now on five similar deals.

For Bangert & Co., the Steiger project was a chance to show what ESOTs can do for small and medium-sized companies. Says Alan E. Sapiro, president of Bangert and former vice-president of L. M. Rosenthal & Co., a New York brokerage house: "This is our first, but this thing will snowball. There are only 12 SIPs in effect now. Soon there will be hundreds."

#### BIGGER DEAL

Sapiro might be called a little overenthusiastic. Indeed, there is no lack of ambition in his newest undertaking: a plan to sell 41 branches of First Western Bank & Trust Co., California's seventh largest, to its employees. Success could clear the way for First Western's merger with Wells Fargo Bank, the state's third largest.

Wells Fargo has spent months trying to put together a package acceptable to regulatory agencies. Anticipating Justice Dept. objections, Wells Fargo suggested divestiture of First Western's 41 branches in northern California, where Wells Fargo has its greatest strength. Some First Western employees began seriously considering the purchase of these branches.

#### YEARS IN COMING

Although ESOTs may be just catching on, interest in them dates back nearly 20 years. Kelso developed his ideas in the 1950s and elaborated on them in such books as *Capitalist Manifesto*, with Mortimer J. Adler as coauthor in 1958, and the more recent *The Economics of Realty, Two-Factor Economics*, written with Patricia Hetter.

In 1956, Peninsula Newspapers, Inc., was sold to its employees through a trust. The sewing machine operations of Watts Mfg. Co. in Compton, Calif., and the 50-branch brokerage house, First California Co., are other early

examples. Bangert & Co. was established last spring to promote the idea. The founders were Kelso, Sapiro, Henry L. McIntyre, former president of Pacific Industries, Inc., and Kelso's old friend Harold Bangert, a North Dakota attorney and chairman of the Statesman Group, Inc., a group of insurance companies. Statesman Group used a Kelso plan to finance its own expansion.

#### HOW IT WORKS

Kelso explains how a company raises capital through an ESOT: "Suppose the company wants to borrow \$1-million. It says to the bank, 'Please don't lend it directly to us—make the loan to our employee stock ownership trust.' The employee committee which manages the trust directs the cash to be invested in the corporation. New stock is issued for that cash at its then-current fair market value. The corporation commits itself to repay the bank loan indirectly through the trust."

The clincher, Sapiro adds, is that "repayments to the bank through the trust are paid in pretax dollars, because the trust is legally an employee deferred compensation trust." In effect, the company pays the loan back as if it were making contributions to a pension plan. Like any other normal business expense, such payments are tax-deductible.

With conventional debt, there would be no tax savings from repayment of the principal. Not counting interest, in fact, Henry McIntyre calculates that at current federal and state tax rates, "it would cost \$2½-million to \$2¾-million to pay off a \$1-million note." Through an ESOT, it would cost only \$1-million. Put another way, by deducting \$1-million as a business expense, a company in a 50% tax bracket can save \$500,000 in taxes.

There is also the long-term advantage of having company employees as stockholders. When the loan is paid off, generally in five years, the stock remains the property of the trust. Thus, says Kelso, the stock goes into the hands of "a team that is here today and tomorrow, no matter whether the stock goes up or down." The individual employees pay income tax on the stock's cost to the trust when they take actual possession, typically at retirement.

#### SOCIAL THEORY

Kelso intends his scheme to serve a broader function than merely the financial one. He is concerned with the interplay of the two classical factors of economics, labor and capital. Today, he says, the only way an employee can provide for his needs is through his labor. Most personal portfolios are just too small to add a great deal of income.

Corporations and government, he says, should accept the idea that capital and what it produces are as important as labor, if not more so. If stock is held widely enough and in large enough amounts, he asserts, the dividends could provide a second income to ease the laborer's dependence on earned income. "Providing people with capital," says Kelso, "should be the government's intention, much as the government provided people with land under the Homestead Act of 1862."

Kelso also points out that income derived from capital held by workingmen, from corporate executives on down, would provide work incentives and, ideally, would relieve companies of the need to increase wages in step with gains in productivity. Improvements in productivity would instead be passed along to shareholders through dividends.

Kelso and Sapiro maintain that most employee stock ownership plans work too slowly. "Sears Roebuck's is the most spectacular, but it's nothing," says Sapiro. "It took Sears years to reach its present level." Citing Harold Bangert's insurance company, he notes: "It took the Statesman Group about four minutes to sign certain papers and get 13.4% of the company into the hands of its employees an \$1.8-million into the hands of the corporation."

ESOTs have by no means been above criticism. For one thing, the extent of participation in the trust is based on salary. "You needn't be a mathematical genius to know that the chairman, president, vice-presidents, and so forth get a bigger piece," says Sapiro.

ESOTs are sometimes charged with being antiunion. Sapiro himself, in noting their advantages, says: "They do a service to employees by building ownership in the company and do a service to companies themselves by build-

ing in significant ownership so that employees will begin to think and act a little more like owners and be a little less receptive to the inordinate blandishments of the unions."

Bangert officials deny that ESOTS are antiunion. But Steiger Tractor is non-union, and companies that use ESOTS often remain that way. Sapiro argues that, by making employees into owners, ESOTS "are designed to make unions a little more responsible."

From a dollars-and-cents view, there is one highly significant problem: that of the dilution of equity, of earnings per share, by the issuance of new stock to the ESOT. Sapiro admits that the dilution problem has not been solved. So Bangert is now concentrating on medium-sized companies that intend to go public soon but want to get stock into their employees' hands now. Meanwhile, Sapiro is working with analytical techniques, often involving computers, to try to determine how much earnings-per-share dilution a large public corporation can absorb.

PROFESSIONAL VIEWS

Despite drawbacks and criticisms, bankers show some enthusiasm for ESOTS. One who expresses excitement over their possibilities is Charles L. Falvey, trust counsel for the American Fletcher National Bank & Trust Co. of Indianapolis. His bank handled the Statesman Group loan but has no other ESOT on its books. "I wish we could get more," says Falvey. "The advantages are there, such as repayment in pretax dollars. Added to that, the costs of setting up a Kelso plan are inconsequential—just the attorney's fees."

Walter E. Hoadley, executive vice-president and chief economist of the Bank of America, expresses interest but takes a more cautious stand, as do many academic economists. "The plans need our careful attention and further practical research before they are widely adopted," says Hoadley. "We can't go out and endorse them right off."

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Attachment 4

[Telegram]

DEAR CONGRESSMAN: H.R. 11589 would permit foreign sale of five U.S. flag passenger ships. It would export thousands of jobs of U.S. workers. Organized labor opposes such a bill and asks for its defeat.

GEORGE MEANY, *President, AFL-CIO.*

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Attachment 5

NOVEMBER 15, 1971.

HON. LEONOR SULLIVAN,  
*House of Representatives,*  
*Washington, D.C.:*

DEAR CONGRESSWOMAN SULLIVAN: This is a copy of a telegram sent to Congressman William Mailliard on November 14, 1971:

"This is to advise you of our organization's opposition to H.R. 11589 which would permit sale foreign of 5 American flag passenger ships to foreign flag interests. If sold in this manner, the vessels would go into operation in competition with the 4 remaining U.S. flag passenger ships operating on the west coast and would in a short time drive them out of business. State of the merchant marine is such that this situation can only be averted by the defeat of H.R. 11589 and we ask your support in this effort."

MORRIS WEISBERGER,  
*Secretary-Treasurer,*  
*Sailors Union of the Pacific.*

HARRY JORGENSEN,  
*President,*  
*Marine Firemen's Union.*

ED TURNER,  
*Secretary-Treasurer,*  
*Marine Cooks & Stewards Union.*

NOVEMBER 15, 1971.

HON. LEONOR K. SULLIVAN,  
House of Representatives,  
Washington, D.C.:

DEAR CONGRESSWOMAN SULLIVAN: This is a copy of a telegram sent on November 14 to Edward Garmatz, William S. Mailliard, Gerald Ford, Carl Albert.

"Please be advised that with respect to H.R. 11589 which will permit the sale of 5 American flag passenger ships to foreign interest. I have been informed that interest in operating these ships has been shown by American businessmen. Therefore, I would appreciate delay in acting on H.R. 11589 until these prospects have been fully explored. Passage of this bill at this time would foreclose any chance of saving these ships for U.S. flag operation and employment for American seamen."

PAUL HALL, *President,*  
*Seafarers International Union.*

## Attachment 7

INDUSTRIAL UNION DEPARTMENT, AFL-CIO—RESOLUTION IN OPPOSITION  
TO SALE OF U.S. PASSENGER SHIPS

(Unanimously Adopted by Convention of AFL-CIO Industrial Union Department, Washington, D.C., October 6, 1971)

A bill to authorize the sale of U.S. passenger ships to foreign interests is now pending before Congress. This bill, H.R. 10577, would be another step in the continuing export of American jobs. At stake are 5,000 shipboard jobs and at least 20,000 jobs in supporting shoreside industries. The U.S. passenger fleet is an integral part of the U.S. Merchant Marine. Its demise would contribute substantially to the destruction of our sea power and the weakening of our economy. It would also be a blow to our national prestige and a loss to our defense.

The sale of these ships would perpetuate a disgraceful situation in which no ship carrying U.S. citizens from East Coast ports can meet U.S. safety standards. The foreign flag ships now cashing in on the booming cruise trade are substantially inferior to U.S. ships in matters of safety.

The bill would authorize the sale of the world's fastest ship, the SS UNITED STATES, the ultimate in passenger construction. It is a powerful defense asset capable of carrying 15,000 fully-equipped troops in time of need and must never be allowed to fall into foreign control.

NOW THEREFORE BE IT RESOLVED that the Industrial Union Department strongly oppose enactment of H.R. 10577, a bill to authorize the sale of U.S. flag passenger ships to foreign interests. We urge, instead, a program for operation of an American flag passenger ship fleet, under private or public ownership, with the following purposes:

1. Participation in the fast-growing American cruise trade,
2. Creation of a national defense asset,
3. Assistance to the underprivileged of the world through the enlargement of project HOPE,
4. Assistance to our national collegiate educational system through the utilization of floating universities, and
5. Serve as international ambassadors of good will.

## Attachment 8

THE AMERICAN LEGION,  
Washington, D.C., December 9, 1971.

Mr. BEN J. MAN,  
Deputy Executive Director,  
AFL-CIO Maritime Committee, Washington, D.C.

DEAR BEN: Indicating the continuing interest of The American Legion in opposing the sale of East Coast passenger ships, I am enclosing a letter sent

to Senator Warren G. Magnuson by the Director of the National Legislative Division.

I note in the Congressional Record of December 6 that Senator McGovern placed himself "in our corner" by also publicly opposing the sale.

With kind personal regards, I remain,

Very sincerely,

JAMES R. WILSON, *Director,*  
*National Security-Foreign Relations Division.*

Attachment 9

THE AMERICAN LEGION,  
*Washington, D.C., December 6, 1971.*

HON. WARREN G. MAGNUSON,  
*Chairman, Senate Committee on Commerce,*  
*New Senate Office Building, Washington, D.C.*

DEAR CHAIRMAN MAGNUSON: Reference is made to H.R. 11589, a bill to authorize the sale of five United States passenger vessels to foreign registry, which passed the House December 1.

Enactment of this measure would mean the potential loss of thousands of shipboard and shoreside jobs for the working men and women of this country, many of whom are war veterans, during a time of high unemployment. Disposal of these ships to foreign interests would also adversely affect the strength of our Nation's defense and the security and economic well-being of many of our citizens.

It is difficult to understand why our modern passenger ships cannot be gainfully employed when other nations are utilizing their vessels and enjoying a high level of prosperity. Although many reasons have been advanced for the sale of these passenger ships, the American Legion sincerely believes that ways can be worked out to utilize this vital segment of our American merchant marine.

Based upon a long standing policy, The American Legion is opposed to the provisions of H.R. 11589 and we respectfully request that you use your influence to defeat it in the Senate.

Sincerely yours,

HERALD E. STRINGER, *Director,*  
*National Legislative Commission.*

Attachment 10

SEPTEMBER 22, 1971.

HON. THOMAS M. PELLY, M.C.,  
*House of Representatives,*  
*Washington, D.C.:*

I am writing you on a matter I personally and the entire ILWU are vitally interested in. Pending before you is a bill to permit sale of laid-off passenger vessels to foreign owners. This proposal, which requires Congressional approval, will encourage demise of American passenger fleet.

As you know in the middle of our strike we are working the four passenger vessels on the Pacific Coast with the hope of continuing the existence of the American passenger trade. Such action by Congress makes the whole program ridiculous and is extremely detrimental to the maritime unions.

I urge you do everything in your power to prevent passage of this bill.

HARRY BRIDGES, *President,*  
*International Longshoremen & Warehousemen's Union.*

Attachment 11

[Telegram]

Chairman WILLIAM COLMER,  
*House Rules Committee, Capitol Building,*  
*Washington, D.C.:*

The city of New York is very interested in finding American owners for American flag passenger ships now in lay up. We are strongly opposed to

H.R. 11589 which will authorize the sale of five U.S. passenger ships to foreign interests at a great loss to American taxpayers. We are particularly interested in the operation by American owners of the S.S. *Santa Paula* and S.S. *Santa Rosa*.

D. KENNETH PATTON, *Administrator,*  
 NYC Economic Development Administration.

[From Time, The Weekly Newsmagazine]

BUSINESS—PUERTO RICO—SHARING THE WEALTH

In little more than two decades, Puerto Rico has lifted itself from a sleepy agricultural backwater to a modern state brisk with industry, commerce and tourism. Much of the reason for this transformation lies in the historic economic program "Operation Bootstrap," which provided large tax incentives to lure development capital to the island. For all the progress, however, living conditions for many Puerto Ricans remain poor.

Last week, in his State of the Commonwealth Address, Governor Luis Ferre recommended another historically significant development program aimed at giving workers a greater share of the economy's wealth. Basically, the notion is to have the government underwrite the cost of stock purchases in private and public corporations for workers who could not otherwise afford it. In addition to giving Puerto Ricans a second income, the plan is expected to stimulate consumer demand and spur business growth. The idea was developed by San Francisco Lawyer and Economist Louis Kelso (TIME, June 29, 1970), who helped draft the program. He has been working for years to get such a plan adopted in the U.S. at both the federal and state levels.

If approved by the island's legislature, as expected, the program (called Commonwealth Co-Investment Plan) would work this way: A body known as the Proprietary Fund for the Progress of Puerto Rico would be started and managed by six directors, three appointed by the governor and three voted in by shareholders. The fund would raise money by borrowing from banks and other financial institutions, selling securities and getting government grants. This capital would be used to develop new Puerto Rican ventures or expand existing ones.

ADDED STIMULANT

Preferred shares of the fund, which would operate like a mutual fund, would then be sold through banks to any employed citizen who earned \$500 to \$7,800 a year. To buy the shares, investors could get government-backed loans, for which they would not be responsible in case of default. A total of 800,000 workers would be eligible to buy up to \$10 million worth of \$1 preferred shares issued the first year. As an added stimulant to the economy, the government would match the investor's purchase of preferred shares by buying him an equal amount of common stock in the fund. Until the loan was repaid from dividends and other income from the securities, the shares would be held by the bank. Thereafter the worker would own the shares outright and get all the income.

The new program poses some difficult questions. For example, only those who hold jobs would be eligible for the program. Thus participation would be denied to the neediest citizens, and there are a lot of them; the island's jobless rate is about 12%. Still Ferre's recommendation is a bold call for action in meeting Puerto Rico's social and economic needs.

Senator LONG. Next we will hear from Mr. James Barker, chairman of the board and chief executive officer of the Moore-McCormack Lines.

STATEMENT OF JAMES BARKER, PRESIDENT, MOORE-McCORMACK LINES, NEW YORK, N.Y.; ACCOMPANIED BY ED HEINE, PRESIDENT, U.S. LINES; AND SPYROS S. SKOURAS, CHIEF EXECUTIVE OFFICER, PRUDENTIAL-GRACE LINES

Mr. BARKER. Thank you, Senator.

Senator Long, Senator Hollings, I have with me today Mr. Heine, president of U.S. Lines, and Mr. Skouras, the chief executive officer of the Prudential-Grace Lines, and if we can operate as we did in the past hearings, I will make a summary statement, and then we will all be available for questions.

I am James Barker, chairman of the board and chief executive officer of Moore-McCormack Lines.

The purpose of my appearance before the committee today is to make myself available for any questions that may have occurred as the result of other appearances in connection with H.R. 11589. I presented on behalf of my own company, Prudential-Grace Lines, U.S. Lines, and American Export-Isbrandtsen Lines, our direct case to this committee on October 19, 1971.

It is worth noting for the record that in the approximately 4 months that have elapsed between that October appearance before this committee and today, the layup costs to my company for the *Brasil* and the *Argentina* have totaled \$600,000. These layup costs include maintenance and interest and bond redemption. This \$600,000 is a negative cash flow. Had H.R. 11589 been enacted, that \$600,000 would have been spent on the construction of new vessels.

It should be added that these two vessels owned by Moore-McCormack have been in layup for almost 3 years. At an annual cost of \$2 million per year, we have already lost \$6 million at my company alone. The total for the four companies is approximately \$15 million. What H.R. 11589 would do is convert those losses to new vessels and new jobs.

In addition, during this time period, two other things have occurred which are costly. The first is that the vessels got older, and therefore a stepped-up obsolescence factor sets in, which means the vessels become progressively less valuable for sales abroad.

At the same time, it is likely that the market value of these vessels may have decreased because other vessels have come on the market. In addition to the Italian Line vessels about which I testified when I last appeared, the *Empress of Canada* has become available for sale, and Cunard Line vessels with the exception of the *Queen Elizabeth II* have been made available for sale.

These are not simply losses to the Moore-McCormack Co. or the stockholders of the company, but this is a diversion of funds away from the vessels that we hope to build and to operate under the American flag once these vessels are sold. That \$600,000 negative cash flow seriously erodes our ability to build and maintain other cargo vessels.

On the subject of new construction, Moore-McCormack has signed a building contract for the purchase of two 80,000 ton OBO's at a shipyard cost of \$57 million. This contract is conditional on the enactment of this legislation.

OBO is an oil bulk oil carrier. That was the ship that Mr. Barisic was talking about just a minute ago. They are basically bulk ships as opposed to cargo vessels, general cargo vessels.

One other point that has to be made is that during this approximately 4-month period between the close of hearings and today, the Moore-McCormack Co. has not received one bona fide offer from an American-flag operator or from anyone who had proposed to operate the *Brasil* and the *Argentina* under the American flag. I have checked with the other companies for whom I am speaking, and all report exactly the same thing. There has not been one spark of real interest in purchasing these vessels for American-flag operation. I think it's important for me to point out to the members of this committee that each time the bill was in a position to pass the House or the Senate, one or more potential operators said, "Stop everything; we want to buy the vessels for American-flag operation." Each time there was a delay and each time the offer proved frivolous. In fact, one company has scheduled several meetings with me; each time I have made myself available, and each time that company has canceled the appointment.

Let me conclude by stressing four points.

First, operation of these seven passenger ships resulted in such increasing losses that the corporate life of each company was severely threatened. In Moore-McCormack's case, the *Brasil* and *Argentina* never earned a profit in any year and lost about \$17 million in operation over the years.

Second, layup of these ships is disastrous. The assets are absolutely nonproductive and the continuing cash drain imposes a tremendous burden on the lines. Again, in Moore-McCormack's case, these ships represent 20 percent of the assets of Moore-McCormack. In freight competition the companies are like long-distance runners who have to compete with lead weights on their ankles. There have been complaints that H.R. 11589 will result in the loss of jobs for American seamen. Actually, the contrary is true. The subject vessels have all been idle for 2 years or more and the jobs no longer exist. Enactment of H.R. 11589 will permit the investment of substantial funds into new construction of cargo ships, creating economic activity in our shipyards and seagoing jobs for seamen who are currently unemployed.

Third, we have considered the alternatives; we have given this committee the detailed results of our studies regarding reactivation and the other possibilities. Without exception, all plans would call for a greatly increased Federal subsidy. An aggregate subsidy for seven ships of \$60 to \$80 million is difficult to justify in light of national priorities and other needs of the U.S. merchant marine, and given that there is no transportation need for these ships; if operated they will be totally dedicated to cruising.

I might add, this would take a change in the law, as we are now prohibited from that.

Fourth, we have been forced to the conclusion that there is only one reasonable alternative, the sale foreign. This is also the conclusion which the House of Representatives reached after extensive hearings before its Committee on Merchant Marine and Fisheries.

This is also the conclusion presented to this committee by the Maritime Administration. Sale would remove the threat of the continuous cash drain and would provide capital for the construction of new U.S.-flag cargo vessels. Prompt action by this committee and Congress will mean immediate work for shipyards, will provide new and secure jobs for seafarers and will help the lines achieve a healthier competitive position in the world market.

Senator LONG. Do any of your associates care to make a statement at this time?

Mr. BARKER. Mr. Heine?

Mr. HEINE. I don't have any particular statement to make. I would think that the questions that have preceded our appearance here will probably lead to many of the things that I would say.

I would like to point out one that I think that is hammered away at with the two preceding witnesses, and that is the great windfall and tax benefits that will accrue to the owners under this bill. Something that I think that is lost sight of constantly, whenever we talk about the great subsidy program of this country, is the fact that construction subsidy which has been used for the construction of these vessels is a benefit to the ship operators. That is not the case. As you well know, construction subsidy goes to the shipyards. I think that that should be borne in mind.

The ship operators themselves receive absolutely no benefit. It is meant to put them on a par with those who are free to go and build in foreign yards. So that when we consider what tax benefits or what great windfalls that are accruing, I think it is misleading to indicate that the operators here are taking advantage of any construction funds or subsidy funds that may have gone into these vessels.

With respect to operations of the vessels, I think your question will probably uncover some of the points we want to make.

Mr. SKOURAS. I would like to make two statements. I think perhaps this can put an overview to this problem. From our point of view, at least Prudential-Grace's point of view, when Prudential acquired the Grace Lines a couple of years ago, one of the motivations that we had was the fact to get into the passenger business, the cruise business. In our estimation, and facts have borne this out, the cruise business, is on the ascendency. We think that the cruise business can perhaps double the number of Americans— attract double the number of Americans now going on cruise ships.

The first thing I did when I took over the line was to inaugurate a program which would accent this field—this endeavor of the Grace Lines. We almost doubled the advertising budget from a million and a quarter to \$2 million.

We increased all the services to the patrons, to the benefit of the cruiser; we in fact, after 1 year of operation, had the greatest number of passengers on board the Grace Line ships than they ever had in their history.

However, and these ships were in our mentality completely booked, because we are running around 85 to 90 percent occupancy.

However, there was two facts which I made clear in the testimony before the House, in my testimony before the House.

Even though these ships were full, and even though we were getting higher tariff per head per day than the foreign competitors, the ships were losing for us, the *Paula* and the *Rosa* were losing for us \$3 million.

So we came to this conclusion. Either there has to be a floor on the cost per day to a passenger, which would be approximately 55 percent greater than we were charging, and we were already one of the highest in the industry, or the Government would have to double the \$450 per passenger they were providing to the line in subsidy payments, so that we would require approximately \$900 per passenger that travel on our lines to make these ships economically successful.

Now, everything that we have heard here today—

Senator LONG. If I might stop you at that point.

You say that in order for you to compete successfully in the cruise business you would need a subsidy of \$900 per passenger?

Mr. SKOURAS. We would need to raise our subsidy from \$400 per passenger to \$900 per passenger, and that is for a 14-day cruise.

Senator LONG. For a 14-day cruise?

Mr. SKOURAS. Right.

Senator LONG. It would work out then to almost \$40 per day that it would cost the taxpayers in subsidy for you to operate successfully in the cruise business.

Mr. SKOURAS. Yes. One of the reasons for Prudential-Grace finding itself in this predicament was also the fact that these particular ships of ours, unlike the U.S. Lines, the Moore-McCormack ships, they were half passenger and half cargo ships. In other words, about half of our revenues per year came from each of these two income-producing items of the shipping industry, freight and passengers.

On the freight side, there was also a tremendous hike in expenses in the last couple of years. It was a skyrocketing raise. And on top of that, in the Caribbean area, the islands that were serviced, with the *Paula* and the *Rosa*, they were greatly acceptable to the container operators, and these ships were not designed to be large container carriers. So now we found ourselves with a situation where that the foreigners were dumping, if I may use the expression, the berths on our route, on the Caribbean trade route, at noncompetitive prices, rather than to lay up their ships in drydock, in England or France or Germany, during their winter seasons.

So they were not really interested in making money. They were more interested in losing less as far as converting these ships into container ships, that was impossible.

So faced with these sets of circumstances, we laid down these ships.

Now, everything that was said here today, we have no argument with. Mr. Curran's statement, we have the greatest respect for everything the union did and tried to do, and they made great offers to us to improve the situation. But the offers were not sufficient.

The statements themselves that I think that everyone has made here today in behalf of the American merchant marine we subscribe to, we endorse wholeheartedly. But we have to find a way to make it work, and, gentlemen, we do not believe this can be done unless there is a floor put on the tariff per day.

Now, we were carrying 12,000 passengers. The foreigners were carrying 480,000 passengers. We would have to ask every American who goes on a cruise ship to increase his per-day cost by 50 percent, or ask the American taxpayers to increase the subsidy 100 percent.

Now, those are the problems, as we see, that exist, and they are the reasons these ships are laid down, and no other reason. There is no high finance to that, to our losing \$21½ million a year out-of-pocket expenses keeping these ships laid down. These are great capital assets. We would love to see them work. We would want them to work.

Senator LONG. Which line owns the *United States*?

Mr. BARKER. United States Lines.

Senator LONG. Which line owns the *Constitution*?

Mr. BARKER. American Export. Mr. Buser could not be here.

We have the *Brasil* and the *Argentina*, Moore-McCormack; and the *Rosa* and the *Paula* are Prudential-Grace ships.

Senator LONG. Frankly, it is discouraging to me to see any of those ships go on the foreign flags because the *Brasil* was the first ship to sail down the tidewater channel from New York to the Gulf of Mexico. I had something to do with the construction of that channel. I went to take a look at the *United States*, when that beautiful ship was under construction, my heart sort of lifted with pride when I looked at that big, gorgeous ship being built down there at Norfolk, or just across the river from Norfolk, Newport News. It would simply make every American proud.

I have been aboard the *Constitution* and seen her sail out of New York Harbor. I think someone invited me to be aboard—and quite a few other Members of Congress to go aboard the *United States* for a shakedown cruise when they first took her out to see what she could do. It is a sad day when we have to retire those ships from service.

My understanding of the merchant marine is that in terms of subsidy, it is so much cheaper to subsidize American ships of a liner type, cargo liner type on the high seas, than it is to subsidize your ships in the cruise trade.

Is that basically their argument?

Mr. BARKER. Yes, if I could respond to that directly. We talked about it at the last hearings, but just for Senator Hollings' interest—

Senator LONG. The gentleman was here testifying to that.

Mr. BARKER. I would like to respond to that.

Senator LONG. Mr. Curran was here also on that.

Mr. BARKER. Let me start by saying that we have done a detailed study which we have shared with the union and shared with the Maritime Administration. It was the basis, I think, on which Mr. Gibson testified.

What we did was—with the union—did a position-by-position study, not only just on the numbers of the cruise, but on the hours they would work, the overtime hours that would be allowed under the contract, the overtime cost per day that would be allowed, and port penalty times and other contributions that we would make. We have a book here which we developed with the union, and it must be

a hundred pages thick that goes position by position. It has got the article rating, the rating, all the hours he would work, so forth and so on.

In this study, the union offered I think about a 20 to 25 percent crew reduction. In total, I think the savings were over \$2 million.

I will get the exact figures, because it is here. I think it is \$2.5 million. It is \$2.5 million that is the savings that they offered us.

We then took that position by position and we had both ourselves and outside consultants and we furnished you with those studies and developed then a pro forma of what the ship would do, and that study indicates that even with those crew reductions, that under the present subsidy as it is now administered, which would be about \$7 million for the two ships, we would need double that, or \$14 million in subsidy to make the ships economical.

To respond directly to your point: \$14 million would be the subsidy or 20 cargo vessels. I would put it another way. We want very much not to build cargo vessels that will replace other cargo vessels, we want to enter the tanker field, and these OBO's will be our first entry we hope into that tanker field. But we think that is the kind of game in which Americans can be competitive. They are very large. Eighty thousand tons at a crack is not a small amount. And we are looking at some 250,000 ton designs. We think that is where Americans can be competitive, where we get ships that have economies of scale.

Passenger ships, unfortunately, are labor-intensive vehicles, and under a labor-intensive systems we are not competitive with foreign competition, even with the subsidy arrangement. Our numbers are similar to the ones Mr. Skouras says. We would need about a thousand dollars per passenger per voyage, and we think there is no support to put up that kind of money. What we would rather do is transfer these assets into different kinds of ships, and we are prepared, as I said, having already signed a construction contract, to put in more money that we would be getting out of this sale.

We only would get \$10 million net out of this sale, and the first order we would put in would be for \$57 million worth of OBO's.

Senator LONG. It occurred to me when you testified that in some respects we might not be entirely fair to the laboring representatives to leave it on the basis that you put it. If I was sitting across the table from you from a labor point of view, I would want to go for the best deal I could get, and I wouldn't want to propose to take a cut to the extent that I might do it if you would come back with a counter offer.

Now, have you thought about that aspect, and if so, to what extent do you think there might be some potential for gaining some concession from labor to make yourself competitive?

Mr. BARKER. We felt they made a very generous reduction in this 20 to 25 percent offer that was made in 1971. We think that further reductions perhaps would hurt the service that you can give. I mean, 300 people to a ship. Our ships are like the Prudential-Grace ships, part cargo, part passenger ships. For cruising purposes, we only carry 400 passengers. But we think if you go much below that, and maybe you can go somewhat below that, at some point you reach a point of diminishing returns.

The other point is that the gap is so big that it is just impossible to overcome under the present subsidy system. What we would need is a need subsidy that would be dramatic in its change from the present Act.

The present act is also very clear. It says that there must be a transportation function involved. There is no transportation function now involved in ocean passenger service. None at all. And we would have to again change the law and get full cruising rights which we don't have at this time.

Senator LONG. I am not worried about the change of the law. I think that would be ascribed to by the administration and we could provide enough leadership to change the law to let you cruise.

I am concerned about where we stand if we are required to go before the Senate and our friends who feel the same in the House of Representatives and try to pass the law to provide that a subsidy for the carrier.

I can see Senators from States that don't have ports from which passengers sail standing there and drawing a verbal picture of us subsidizing a bunch of fat cats and wealthy people at \$40 a day while they lay around and enjoy themselves at the expense of hard working people in this country paying taxes. They would say, why can't they fly tourist the same way we do.

Mr. BARKER. We agree with that judgment. I don't think there is much support to change the law so we could qualify for double the subsidy. I would make one other point. I would think that this effort would be to save the economic lives of the present passenger ships. I may be wrong, but it is my judgment or my feeling that even a proposal of that kind would be to save the present ships but not go into an ongoing building program. It is an effort to save the present ships that we have. Our judgment is, after looking at this for 3 years, after going through over a year now in hearings about this issue, two hearings in the House, now two hearings in the Senate, and a lot of conversations in between, the assets that we have tied up, is that it would be better to move these assets over into new types of ships where Americans can be competitive and to take advantage of the provisions of the 1970 act which allows us to get into the bulk and oil carriage.

Senator LONG. How long have you been with your company, Mr. Barker?

Mr. BARKER. I have been chairman of the board a year, and I was with the company a year before that as a consultant.

Senator LONG. Some might describe you as one of those whiz kids interested more in the profit sheet than providing the service, but I was told more than 2 years before this bill came in that yours was a proud old company that was not going to give up the passenger service easily, that you would die hard, but eventually you would have no choice about it.

Mr. BARKER. We lost \$17 million in the year 1970. Not all of it to the passenger ships. Only \$2 million of it. In 1970, the company was in danger of going under.

Senator HOLLINGS. Mr. Barker, what was your background before? What is your maritime background?

Mr. BARKER. I started my maritime background as a child on the Great Lakes, I had several uncles who were captains and chief engineers on the Great Lakes, been around ships all my life, worked my way through college as a deckhand on a Great Lakes vessel, AB at Columbia University, Coast Guard for 3 years, Harvard Business School for 2 years, majoring in finance and transportation, then went to the Great Lakes with Pickands, Martler and Company, a Great Lakes steamship operator, where I was in charge of operations analysis and operation planning.

I left Pickands, Martler and joined a consulting firm in 1967 and became vice president. I started my own firm called Temple, Barker and Sloane, of which I was executive vice president, then I left Temple, Barker and Sloane in 1971 to become chairman of the board of Moore-McCormack.

Senator HOLLINGS. Have you ever negotiated with the union?

Mr. BARKER. Negotiated a contract?

Senator HOLLINGS. Yes, sir.

Mr. BARKER. I have not. I have talked to the unions about the passenger problems. The last contract we negotiated was in 1969.

Senator HOLLINGS. That was before you came aboard?

Mr. BARKER. That is correct.

Senator HOLLINGS. And would it be your answer that you can't get there from here, that you just cannot run in America, and is it your judgment that you cannot operate a passenger line economically in America?

Mr. BARKER. It is my judgment, yes, not without vastly increased subsidies.

Senator HOLLINGS. I can tell by Mr. Skouras' testimony there is a quick tendency to oversimplify, not him, but some of us, me, that even if you get down to what is economically sound, you say, Mr. Skouras, that they could change on you and dump, in other words, not even make any profit whatever, that some of the foreign lines would just keep it during the winter months and that kind of thing. Do they engage in those practices?

Mr. SKOURAS. Yes. If you look at the way the sailing schedules are made up by the foreigners, the number of ships that come into the Caribbean cruise peak season goes up in tremendous proportion to those who are there ordinarily throughout the year, and then they leave after the spring vacation. They come back in for a June, July, they go back out again, they come back in around September, October.

Senator HOLLINGS. Why can't we?

Mr. SKOURAS. We were there year round.

Senator HOLLINGS. Why didn't you go out and come back in like they do, and follow them, if you didn't know where they were headed, get on the stern and follow the blooming ship. That would have been a good business practice, wouldn't it?

Mr. SKOURAS. Yes. Well, as Mr. Barker stated, we had no right to use worldwide, and we were in a cargo picture. Half of our income was from cargo, half was from cruise passengers.

Senator HOLLINGS. If you didn't have the cargo, you could have done it?

Mr. SKOURAS. We had a route we had to follow by subsidy contract. It would be impossible for those ships to operate without cargo unless they are redesigned.

Senator HOLLINGS. I see. But a similar ship, like some of the other lines do have, totally passenger, as they may be, could that operate with a slight increase in subsidy?

Mr. SKOURAS. Well, I don't have one of those ships, and I haven't done a study like that.

Senator LONG. The other witness might be able to testify to that.

Mr. HEINE. I am referring now primarily to the *United States*, and as you know, this refers to the testimony before the House concerning my statement, that even if we didn't have any crew on board, we could do no better than break even.

Subsequent to the hearing, I wrote to Congressman Garmatz and made copies available to anyone interested in those figures to prove the point that I had made at those hearings, and I gave all of the backup data to show that with respect to the passenger ship, the *United States*, under the very best of circumstances, if we got 100 percent subsidy, we would still do no better than break even, and we would probably suffer a loss, and I think there has been too much emphasis placed here today and also at the other hearings of the involvement of labor in this particular picture, and I think that one thing we have all tried to bring, of course, that is, the operators, is that labor is only one of the elements to be considered here. To give you an example and to quantify what I am saying, since the *United States* was built, up until the time of its lieup in 1969, it averaged somewhere between \$18 and \$20 million in revenue. It did just as well its last year from a revenue point of view as it did in its very first year of operation. It made a profit up until the time of 1961, which as you may recall, was the time the 70-P was first introduced. This was one vessel that was built primarily for transportation, not for cruising.

And we put together for the benefit of the House committee a pro forma which we thought was a proper pro forma to show exactly how serious the situation is, and we made the assumption that if we keep the level of revenues what they had been up to that point, the total operating expenses of that vessel within the course of a year, before owner's expenses, that is, before G. & A. and debt service, and so forth, was about \$35 million.

Now, of that \$35 million, \$18 million of it was for crew and subsistence. Therefore, if we were to take a subsidy payment of \$18 million and deduct it from the \$35 million operating expenses, we would end up with \$17 million, which would just equal the revenue that we took in.

These are not fabricated figures. They are actual figures. We have the backup for every one of the figures, and in some instances we really feel that we are being somewhat conservative in our approach.

So what I am really trying to say is that labor has gone out of its way to be cooperative, to do everything possible to keep these ships afloat.

I have met with Mel Barisic, who appeared here today, on more than 10 occasions and listened to his suggestions, and he did have

excellent, wonderful suggestions, but it is just a part of the answer. It doesn't solve the overall problem.

You must remember that subsidy as it is designed under the 1936 act refers only to a few specific operating costs, primarily the crew, some maintenance and repair, and some insurance.

All other operating expenses, you have no benefit over your foreign competition. And under the subsequent act, that puts you at a disadvantage, vis-a-vis your foreign competition.

Senator HOLLINGS. Obviously, I am going to have to look into it closer, but there was a study referred to, Mr. Barker, about a \$2½ million savings.

Was that on each vessel?

Mr. BARKER. Let me check that. I believe that was on each vessel.

That was on both vessels, in total.

Senator HOLLINGS. The total. So it would be \$1¼ million savings on each vessel.

Mr. BARKER. Correct.

Senator HOLLINGS. What study is that again?

Mr. BARKER. This is a study that we started in 1971, and the point of departure was to take the recommendations of the union on crew reduction, which they gave us, not only the 20-25 percent reduction in the crew, but then we went over the basic elements of pay in which a lot of our pay is overtime, working after 5, port time, other contributions that we make, and suggesting to them things that we could knock out.

So it was both crew reduction and also the terms and conditions of their pay. We then took that study and said, all right, what is the total operating cost then of the vessels, and we put that against a pro forma revenue of about \$55 a day, which is higher than the actual market, assuming 400 cruise passengers per vessel, and assuming, so that we would have no argument, that the ship was full all the time—I don't think this would be true, because there are periods in a year in which nobody likes to travel in the Caribbean, including the hurricane season.

We additionally put down there only \$1 million worth of overhead. Historically, the vessels have cost us about \$2½ million of incremental expense to operate them. We wanted to get a low enough figure so that we were not talking about overhead and that sort of thing. What comes out is that we need \$7 million additional in subsidy to operate the vessels.

Senator HOLLINGS. Let me try to fix it in my mind, because you see, I get the general guidelines and like I say, I am going to study your report, and all the previous testimony taken by the Chairman last fall. But you come up and you say you agree with everything the union has said, you say in response to what the union suggested, you could save \$1¼ million per ship.

Mr. BARKER. Yes.

Senator HOLLINGS. And you have got a \$2 million loss. So if you had the ship, you would have the jobs and everything else going and operating, you would have the revenues of payments and, the other \$750,000, wouldn't that be made up in salary and other things?

Mr. BARKER. If we were to operate the ships today with the crew reduction, with the subsidy that we qualify for under the present law, we would lose somewhere between \$7 and \$9 million.

Senator HOLLINGS. On each ship?

Mr. BARKER. No, together.

Senator HOLLINGS. How many ships is that?

Mr. BARKER. Two ships. The *Argentina* and the *Brasil*.

Senator HOLLINGS. You see, we sit up here in these committees and we listen to the railroad fellows, and if you hear them, you would never have a passenger train. They all lose money, just get rid of the passenger trains. And that is not our responsibility, to go out of the passenger business, for passenger trains or passenger vessels.

I understand you've got a financial problem. I sympathize with it. But, being a good smart businessman, as I am, when you took it over 2 years ago, you did not take it over with your eyes closed. You knew it was losing at that time. And you knew there was no law to cover it, and there isn't at this moment a law to cover it. That is what we are asking for, is to change the law.

I guess you had a good annual report that you were not going out of business. Moore-McCormack, is that owned by another holding company, too.

Mr. BARKER. No. City Investment has 25 percent of our shares. But we are a New York Stock Exchange listed company as Moore-McCormack, with a large number of stockholders.

Senator HOLLINGS. Yes, sir. I had a thread of thought, too, Mr. Skouras, that you said that you were looking at how they could minimize their losses, interested in losing less, rather than making money.

Perhaps that is going to be the duty of the committee. If you can come to anywhere near even, that is better than the \$2¼ million to pick up paper out of the park. At least you would have the Seafarers Union going, you would have the capability in the sense of defense, in case you had another type of Cuban crisis and what have you.

So there are benefits that this committee would consider other than just bam, bam, as your statement says, Mr. Barker, and I say this respectfully, it is a financial statement.

I mean, look how much we lost. We lost this, we lost that and everything else. Cash flow has gone down. Everything has gone to pot, just sitting here waiting.

Well, that is not necessarily the case, I don't believe. I think we can minimize some of those losses and get those ships back.

I wish you would elaborate, because I never have—one time Congressman Davis said it was somewhat in our backyard, but the gentleman he mentioned had no more experience than I in shipping or in passenger vessels.

Congressman Davis referred to one group with a Mr. J. B. Williams, who is in the stock business. I don't know that he has ever had any experience whatever operating the vessel. Did he make a proposal to you?

Mr. BARKER. He did not. I will elaborate the circumstances.

When the bill was coming up before the—I believe it was the House Rules Committee—back in—it must have been early October. I don't recall the exact date, late October, because my letter is dated November 9. There was a press conference held in Washington, of which I had no advance notice, in which Mr. Williams, in Mrs. Sullivan's office, said that he was going to make a proposal on our two ships, and that the proposal was going to be \$15 million, or whatever it was.

And about 5 days later, I received in the mail from Mr. Williams a notice of what had transpired at this press conference, stating that he was interested in the ships.

I responded to him on November the 9th, saying, thank you for your letter and interest in the *Brasil* and *Argentina*. We would be very pleased to discuss with you the sale of these vessels for the U.S.-flag operation. Please contact me so that we can discuss this matter further.

He then came back, and through a series of letters and telephone calls, two or three appointments were slipped, either because he was in Europe or had other things going, and it finally went on until December 3, I believe it was, in which case the House vote took place.

We had a meeting at 10 o'clock that morning, Friday morning, which I was there in my office, and about 9:30 in the morning, I received a telegram. It says, please cancel our meeting Friday, December the 3d. The House vote on H.R. 10577 leads me to believe that a successful negotiation on our proposal—

[Reading telegram.]

Mr. BARKER (continuing). I have never seen Mr. Williams, never talked to him, never received an offer from him.

Senator HOLLINGS. I think the record ought to show I haven't seen him in over a year. I respect him. He is a good citizen in Charleston.

On this score, I haven't seen him physically in a year, and he never has discussed it with me.

As the chairman said, on transportation rights, we can get a bill through, I think, on that particular score. But when you come up and your cost of construction is already cared for, whether it goes for the operator or the construction yard, you've got your cost, your ships are there.

So you know you are on a par basis there, and then you get the labor and you say it is not labor, and you agree with everything Mr. Curran was saying. If it is not labor and cost of vessel, the only thing you have got left is to pay American some license fees or practices, and we have got to narrow the field where we ought to be able to compete and contain some passenger carriage capability here in this Government.

That is the way it strikes me.

You would be willing to do it if we could get it anywhere near break-even for you?

Mr. BARKER. Yes. We testified on the House, if we could on a break-even operation, we are not in business to break even, but in this case, I testified before the House, if we would be guaranteed that we would break even, we would operate the ships.

Senator HOLLINGS. We appreciate your spirit. I think that is all we need. If we can get those in the field to break even—is there any objection other than salary to engaging American seamen aboard these vessels?

Mr. BARKER. Not at all. We engage American seamen on all other ships, and if this bill were to pass, we intend to fully employ American seamen.

Senator HOLLINGS. I think you have jumped now to oil carriage. You would not do anything less than 150,000 tons double hull, you would not be building many of them under the new scheme of things?

Mr. BARKER. I don't know how many we would be building, but we think the market is terrific when you understand that literally there are no American tankers in the foreign commerce in the oil business today. If you talk growth estimates, I think there is something like 4 million tons coming in now.

If you look at our energy requirements for the next 15 years, it is going to go up to about 14 million, and I think there is going to be a lot of ships built to carry that trade.

Senator HOLLINGS. Under the Jones Act?

Mr. BARKER. Not in foreign commerce. The ships we are proposing to build are to go against foreign competition, which the other ones do not.

Senator HOLLINGS. Thank you, Mr. Chairman.

Senator LONG. Now, let me get one or two things straight.

With regard to the labor matter, you say that as far as you are concerned you are not here to quarrel with labor, they have been cooperative in trying to find ways to help reduce costs, and I believe you said that you could not, with regard to the United States, that even if you had no labor costs at all you would still be losing money?

Mr. HEINE. For my particular passenger vessel, that is correct, and as I said, I have the figures to demonstrate that conclusion.

Senator LONG. Is it not also correct that assuming that labor gave you every bit of help that they honorably think they can in trying to help in this joint endeavor, would your labor cost be higher than it would be for your competitors?

Mr. HEINE. Are you saying if we received every benefit they gave, would we still be hiring foreign competitors?

The answer to that is yes, obviously.

Senator LONG. Let's go back to the discussion Mr. Barker had, where it was proposed by Mr. Barisic that things be done to reduce the cost to cut corners such as you thought perhaps you could, and labor was indicating that they would be willing to cooperate with it.

What would your comparative labor cost be if you did all that?

Mr. HEINE. Well, I think the best gage for something like that is to take a look at what the subsidy rate is that is determined by the Maritime Administration. That theoretically is supposed to put you on a parity with your foreign competition.

In the case of the *United States* in its final years of operation, I think its subsidy rate was about 62 percent. I know that in some of the figures that Mr. Curran submitted he was talking about an 80 percent figure.

I don't know that the Maritime Administration has ever paid a subsidy rate on our ships that high, but I think that both what Mr. Barisic said and what Mr. Barker said, they indicated that if you cut your crew maybe 25 percent, you would then be coming to the point where either it would be unsafe or inefficient to operate a ship.

So, you can see there still would be a considerable cost differential even with the cooperative efforts that the union has proposed.

Senator LONG. I would like to ask Mr. Barker to give his reaction to that.

Mr. BARKER. Even if we went through the reductions we would still not be competitive with foreign labor. The way it works, they take your ship as if it were under the foreign flag, not as if what is actually going on under the foreign flag.

Senator LONG. How far out of line would it be?

Mr. BARKER. Right now we are \$7 million off on our two ships. That is with the \$2.5 million reduction.

Let's say, just to pull a number out of the air, let's say that another \$2 million could be reduced, just to pick a number. That would indicate substantial reduction.

Well, of that \$2 million reduction, we get subsidy on 60—our rate is 63 percent, so we would only save about \$600,000. So, our \$7 million dollar loss goes down to \$6.4 million.

The problem is as we make reductions, you see, we get our subsidy reduced.

Senator HOLLINGS. Mr. Barker, how many employees would you say you would add? If you sold the vessels all tomorrow, built the new ships you intend to build, how many maritime jobs? You remember, the previous witness, I think, attested to about 26 for four vessels, or 104?

Mr. BARKER. On the two vessels we are going to build, the testimony was substantially correct. We would add about 28 billets per ship, that is about 56, and on the two we are going to build, you would add about 60 or 90 jobs.

Senator HOLLINGS. I've got a feeling, if I could hire you for the Government, we could solve this problem.

You know this background; you know transportation. You have been with a management consulting firm. You know the comprehensive study has been made on behalf of the Government to provide us with a passenger carriage capability on the vessels. Has anybody done one on that?

Mr. BARKER. We have got four volumes of the detailed study that we did, and we have given that to the Maritime Administration, gone over it in detail to see if we can qualify for additional subsidy under the fact.

They reviewed it and came back to us and said, your numbers are correct, there is no hope for you under the act at it is presently structured.

They have gone over that study that we have done with us in fine detail, and it is a very, very specific study, as I said, line by line, job by job, and building up, and Mr. Gibson testified in October before this committee about that issue, and his conclusion is that it is not economic the way the law is presently structured.

He also testified and reported that the Defense Department testified that they have no use for the ships, and that they did that over in the House. And that from his viewpoint, there is no transportation function involved. It is strictly pleasure, cruising, leisure-type business, and that he would find trouble supporting that in the Administration.

Senator HOLLINGS. I would have to question Mr. Gibson on the transportation feature.

That is all.

Senator LONG. Thank you very much, gentlemen.

I would like to invite you to stay around for a few minutes.

Mr. Curran, you and your associates may come up and add something to what has been said here. I don't want to leave this hearing with anyone feeling that he didn't have an opportunity to respond to what the other witnesses said.

If you would like to add something to what you have already testified here today, I would be glad to hear you.

**FURTHER STATEMENT OF JOSEPH CURRAN, PRESIDENT, NATIONAL MARITIME UNION, AND CHAIRMAN, AFL-CIO MARITIME COMMITTEE; ACCOMPANIED BY MEL BARISIC; AND GENE SPECTOR**

Mr. CURRAN. Mr. Chairman, I appreciate the opportunity to answer some more of these questions, but frankly, I don't want to burden the record with just a speech.

Our research and economic expert has picked up a few things here he would like to put into the record, if it is OK.

Senator LONG. Certainly.

Mr. SPECTOR. Thank you, Mr. Chairman.

First, I want to make a point that the proposed legislation in my mind is rather an admission of failure of management. On the one hand, they want a piece of legislation to allow ships to be sold foreign.

This presupposes a buyer. It presupposes an economic use, which they say cannot be found under American flag, and there is no finding under the American-flag operations.

I would consider this an anomaly. And I think an administration that American management in this particular field really hasn't given any thought or study to the problem.

They cite an emergency overtime, and make no real moves to do anything about it, to change from point to point, to the cruise trade, to put further money into their ships, to take the losses they have taken for the years they have laid up, to get involved in some capital change, expand the capacity of the vessels, and adopt them to the cruise trade.

So in that area, we feel it is very difficult to understand, coming before the Congress and not asking for a new type of subsidy legislation, which in our mind the same level of the subsidy paid some years ago would be effective with proper management of these passenger vessels.

They have not come and asked for that type of relief. They have seen capital reserve funds developed. These capital reserve funds have disappeared.

If you look at the capital reserve funds of the various subsidized lines, they have all been drained. There is no money for replacement anymore.

And, as between two situations, perhaps they can make more money in freight than in passenger ships, and from a dollars-and-cents standpoint, perhaps it makes more sense.

From an overall maritime and national economic point of view, it does not in my mind.

So, I also want to make a point that our figures—we do not want to have the companies put into our mouth their figures. Their study by Temple, Barker Slone, and the figures they put in the record are Moore-McCormack figures, not the National Maritime Union's figures.

We think all of the testimony by management has been self-serving, in an effort to find a way out of getting these ships off their hands and into what they consider more lucrative.

I might point out that the U.S. Lines operated at one time close to 60 ships. They now have a fleet of 30. The Moore-McCormack Lines operated 37 ships or 38 ships; they are now down to 13 ships.

Each of these companies had large fleets and these fleets have shrunk and shrunk and shrunk and will continue to shrink, and even if they took the money out of the passenger ship business and put it into the freight business, the size of the fleet, relative to 4 or 5 years ago, is still going to be tremendously less, job opportunity tremendously less, and quite frankly, we are hurting for jobs.

The figures show a drop from 155,000 maritime jobs to around 27,000 seamen are unemployed, and it is getting worse, and they have cut out from under us a very important element of job opportunities.

Our figures say that you can take these ships with knowledgeable crew ship management, and taking a piece of capital investment and making the improvements necessary, these ships can be operated economically. We say there is no motivation on the part of management today to do this. They are looking for the easy way out.

We think that if the Congress says now, these ships are national assets, they shall not be sold foreign, that these companies would take another look. They could come back to us. There would be some further hard bargaining and we could work out a labor cost situation and a total cost situation in relation to selling space aboard the vessels that could make this economical.

We think not just break-even, but profits could be made, because in the long run, if we can't make profits in passenger ships, we are not going to reproduce them.

While it would help us for 4 or 5 years, or 10 years, depending on the age of the vessel, we would prefer to see profits made and re-invested in the industry and new construction come out of it. And this is, again, why we proposed if all else fails, that employee participation in some form perhaps can be the vehicle to bring capital into this industry.

I think quite frankly the key here is subsidy. We are not asking for more subsidy. We are asking for a change which will give us a needed subsidy at levels that existed in the past. We are not asking for more money. We think it is rather silly, and I think it is indica-

tive of management philosophy when they come before this committee and they take a total number of passengers moved and total-dollar revenue and divide it out and say this is the subsidy we need for passenger when they know that 60 percent of their total revenue came from cargo and 40 percent from passengers.

It is this sort of philosophy and this sort of thing, I think, that has been the problem in this industry, and this is what has to be changed. Thank you.

Senator HOLLINGS. What was the formal level of subsidy that you are going back to? I should know. Educate me.

Mr. SPECTOR. In our particular illustration, in 1967, \$13 million paid for the *Constitution* and *Independence*, which is roughly \$6 million per vessel in operating subsidy. In our pro forma we asked for around \$5.7 million.

Now, our facts could be wrong, but I know that our labor costs are half of what the company proposed in their pro forma before this committee and before the House committee. That saving, it is true, in the existing law would not result in dollar for dollar saving for the company.

If we knocked off \$5.5 million per year in cost, most of it would accrue to the Government and not to the company. Again, the current law does not provide proper motivation for management to move ahead.

Senator HOLLINGS. You would not want to take over the ship, would you?

Mr. SPECTOR. I would like to.

Senator HOLLINGS. Have you ever thought of leasing some? You know, in Lockheed, now, we are running all kinds of companies to keep jobs.

Mr. SPECTOR. You say I.

Senator HOLLINGS. I am talking about Mr. Curran and the unions.

Mr. SPECTOR. I think the answer there is that we have talked about looking into employee participation in terms of Mr. Kelso's plan or economic approach.

Senator HOLLINGS. Make capitalists out of you folks.

Mr. SPECTOR. Where the employees would get an ownership interest in the capital assets of the vessels.

Senator LONG. How much is the union willing to put into this thing? We might just put a deal together right here this afternoon.

Mr. CURRAN. Well, I think, Mr. Chairman, we have to look at it from the point of view that labor can only do certain things. There arises conflict of interest relations under the law.

We are willing to participate in any legitimate program, and there is an operation here that has some possibilities to it, and we would like the opportunity to study it, and if there is a possibility of union participation, we are certainly willing to examine it.

As a matter of fact, we have made approaches on that basis. We have advised the operators that we are prepared to participate in every way possible and feasible under the law.

I would like to point out further, too, that if we are talking about competition with foreign labor, with foreign building, with foreign

anything, there is no one in these United States today that can compete with foreign industry.

The entire labor movement of this country today has a study being made to show conclusively, it has held conferences, to show that within the space of 10 years the unemployment situation in this country, because of that factor will be so rough as to cause a possible revolution in this country.

The unemployment is rising and I think it was mentioned before that \$2 billion is being appropriated to make work, and to make work why? Because the multinational corporations are building and importing into this country everything that we have.

General Electric has gone out of business in this country in the appliance field. They have appliance corporations in every country except three today, and the import is entirely into the United States.

So that with the seamen, it is not just the seamen have priced themselves out of the market. America is pricing itself out of the market, and the sweat shop has moved from Chicago, and other places in the old days, to the international field. That is all it is today. And we have to recognize that fact.

Now, we have offered to cooperate as far as humanly possible with our people who have to live here, who have to live in this country, and we don't want to promote more ghettos.

So, what you have to do is move seamen already employed, fortunately we have had no race problem, or anything in this industry, and we put them on the beach, and then we come to Congress and we get millions and millions of dollars to help train minority groups for work, boondoggle work in many of the cases, and here you got a going industry that is going down the drain that has a major part of its employes from minority groups.

So, if we look at this thing objectively, the entire American economy is faced with a competition factor that is going to drive it out of business unless something is done about it.

And I think it means import quotas, it means the works here, if we are going to save the employment of workers in this country and the quality of our goods.

Senator LONG. I don't have any doubt in my mind, Mr. Curran, that the trade policies that we are pursuing and the trade policies that our free trade advocates would like to have us pursue will phase us out of labor intensive manufacturing; there is no doubt in my mind about it, and anyone who is not being subsidized directly or indirectly, either by quota or absolute prohibition of importing the product, is in jeopardy for his job.

Walter Reuther, who was a great statesman for foreign aid back at the time we could afford some—he is not with us today—a fine man—but I just find myself wondering whether if he were here he would still be advocating that the same free trade philosophy he was advocating when he was here with us, particularly back in the old days, where they would capture the American market from us. There is no doubt about it, we are losing jobs, the high paying jobs, the kind everybody wants.

Senator HOLLINGS. Mr. Curran, we have exploited our technology,

that is why we can't keep pace with it. You have come directly, the Commerce Committee had had hearings on the west coast, Floyd Smith testified, we could put the machinists, engineers, right to work, technology and marine sciences, and instead we got a public service employment to beef up the courthouses and State houses all over America again picking up that paper, and we just wouldn't go into that particular field.

When you talk with the General Electric Co. down here in Hampton Roads, they tried their best to build a landing platform, what they call a floating island, and they made a proposal and the Government wouldn't take up technology to it. So they went to the Japanese so the Japanese are going to build it. To get that big oil tanker, you can't get anything 150,000 tons on the eastern seaboard, so they got to be on these floating islands, and they will be built with Japanese technology right out in Hampton Roads because our Government has gone out of business in technology.

Mr. CURRAN. That is right, Senator. There is no question about it. We are going out of business. We are going to be a havenot Nation if we keep on going.

I would like to say something about these big tankers. I have had considerable experience in tankers, and I guarantee you this, the bigger those tankers, the quicker they break up. I talked to a gentleman who was talking in terms of 300,000-ton tankers, and the Japanese gentleman talking about a million-ton tanker, and I asked him, how long do you think the vessel will operate because of cracking up, because of all that horizontal strain, and no vertical support above the plane deck?

These ships are 1,100 to 1,300 feet long, and when seas 50 foot and higher are under those ships, there is a complete hollow for a great length of those ships. His answer to me was one of a man who cared about life very little. He said if they make two or three trips, they earn their keep, and we don't care if they break up after that. This is the philosophy you have from these people. These big tankers, we tell you, are a very dangerous thing. They may do some work, and you guarantee you're going to have them laying along your coastline.

Senator HOLLINGS. And the oil pollution that goes with it.

Mr. CURRAN. We have lost two or three of them so far. Three big giants over in the European area—one of them burned up, the other broke up. The *Torrey Canyon*. These ships, when they get through a current, nothing is going to stop them. No man at the wheel, no engine will stop them from following that current in the North Sea, English Channel, these places. When they move, get out of the way.

Senator LONG. One thing you can be sure of is that we can't count on getting that cargo here in wartime; in the event that we had anybody abroad who would ship us any fuel in wartime, I should think a submarine could hit one from 50 miles away, without having to aim.

Thank you very much.

Mr. CURRAN. Thank you very much, Mr. Chairman.

Senator LONG. I want to invite the proponents of the measure, Mr. Barker and his group, to make any last statements. I would like to give both sides the chance to be heard.

FURTHER STATEMENT OF JAMES BARKER, PRESIDENT, MOORE-McCORMACK LINES, NEW YORK, N.Y.; ACCOMPANIED BY ED HEINE, PRESIDENT, U.S. LINES; AND SPYROS S. SKOURAS, CHIEF EXECUTIVE OFFICER, PRUDENTIAL-GRACE LINES

Mr. BARKER. I have nothing to add except to reiterate that I think the studies we have done are sound. We have shared them with the unions and with the Administration. We think they reflect the economics of the situation. These are the economic facts and we don't see much problem.

Senator LONG. Anything further?

Mr. HEINE. I would like to defend management for a moment, if I may. It is very easy to sit here and listen to how poor management has been in its passenger ship operations.

I think, though, you can't lose sight of the fact that speaking for our company and the gentlemen on my left and say comparable things for their company with respect to what they have done, companywise, in the last decade. This company of mine, the United States Line, has poured in of its own money, exclusive of subsidy aid from the Government, over \$200 million in the building of new cargo vessels.

Today the United States Lines is probably the most modern fleet of container types and great bulk ships in the world, and I think that can be said for most every other American-flag carrier. They have the best cargo carrying equipment in the world today.

It may well be that because we couldn't solve the passenger situation and our foreign competitors are not solving it very well either, that may well be an indictment of management. But by the same token, the thing that is going to carry the American products overseas and make it competitive with the Americans, the American-flag group, I think has done a fairly decent job in managing its investments.

Senator LONG. I neglected to ask this one question while you were testifying before. What provision is there in this bill to seek to make available the use of those ships in the event that we found ourselves at war?

Mr. HEINE. I might say the *United States*, as you know, is not going to be sold. The *United States* is going to be put into the reserve fleet, if they will pay us the net book value. That is all the *United States* is going to be covered by. With respect to the other vessels, I am assuming that it would be that the transfer foreign would be subject to the normal conditions that are applied by the Maritime Administration in any transfer under the provisions of the Shipping Act of 1960, and there would be agreement on the part of the foreign owners with the consent of their governments to make these vessels available in a time of emergency, and normally those foreign purchasers are required to come forward and post a performance bond to see to it that they comply with that promise to make it available.

Mr. BARKER. The law is very specific, the way it is written. That is, the vessels are subject to, not recapture, but requisition in the case of an emergency, and I might say there that it is more likely that those vessels, assuming that they are in NATO countrylands,

that they would be more available in an emergency than the ships would be if they are laid up. Our ships, for example, now to take them out of layup, they would have to undergo extensive work.

Senator LONG. If they are sold, what countries would be most likely to be the buyers of them?

Mr. BARKER. In our case, Holland will get our two. Holland-American Line.

Senator LONG. Can you tell me about the others? If you sold them today, who would be the most likely to buy?

Mr. SKOURAS. Well, we have had several offers, but nothing concrete, from a variety of different operators worldwide.

I would like to state, though, if I may, at this point, that we also, Prudential Lines, alone, before the acquisition of Grace Lines, is committed to spending \$150 million of its funds for new ships, new Lash, barge-carrying type ships. The Grace Line itself before we acquired it invested over \$150 million of its money into ship construction.

As far as the factor that was raised here about these being combinations, the *Paula* and the *Rosa* being combination passenger-freighter ships, as I stated earlier, it was true, 50 percent of our income did come from the past from freight. These ships can no longer carry freight because of the newly productive type ships have destroyed their capability to operate as half freight, half passenger in the future.

Thank you.

Senator LONG. Now, do I understand you to say that the money you would realize, you would put into Lash type ships?

Mr. SKOURAS. Right. Prudential Lines.

Senator LONG. They do have a national defense potential themselves, do they not? The Lash type vessel?

Mr. SKOURAS. They have a what?

Senator LONG. A national defense potential.

Mr. SKOURAS. We consider them a great military type ship for any kind of emergency.

Senator LONG. They can launch independent barges, barges capable of moving under their own power, for example?

Mr. SKOURAS. Right. We presented to Mr. McNamara a program which we thought was comparable to his fast deployment logistics ships. We said instead of spending a couple of billion dollars in ships and keeping them anchored in Midway or Pear Harbor or in the Indian Ocean and in the North Atlantic, instead of having the straight capital asset sitting there basing, why not supply or fill up barges with your equipment and material and have the barges ready, like warehouses, in case of an emergency, and then select the proper barge for the emergency and have the Lash type, the barge-carrying type ship pick it up and take it to the destination, rather than having the vehicle itself tied up with the capital cost?

Senator LONG. What kind of barges would you launch for using them for an invasion? How long are those barges and how wide are they?

Mr. SKOURAS. These barges are 60 feet long and 32 feet wide.

Senator LONG. Are they capable of being put under their own power?

Mr. SKOURAS. Yes. During the last war, they had these so-called huge portable type, you might say, outboard propeller type arrangement on the stern of the barge, which were portable.

Senator LONG. So that you could do an awful lot of amphibious work with those type barges.

Mr. SKOURAS. Exactly.

Senator LONG. Any further questions?

Senator HOLLINGS. You wouldn't mind selling them to Onassis, would you?

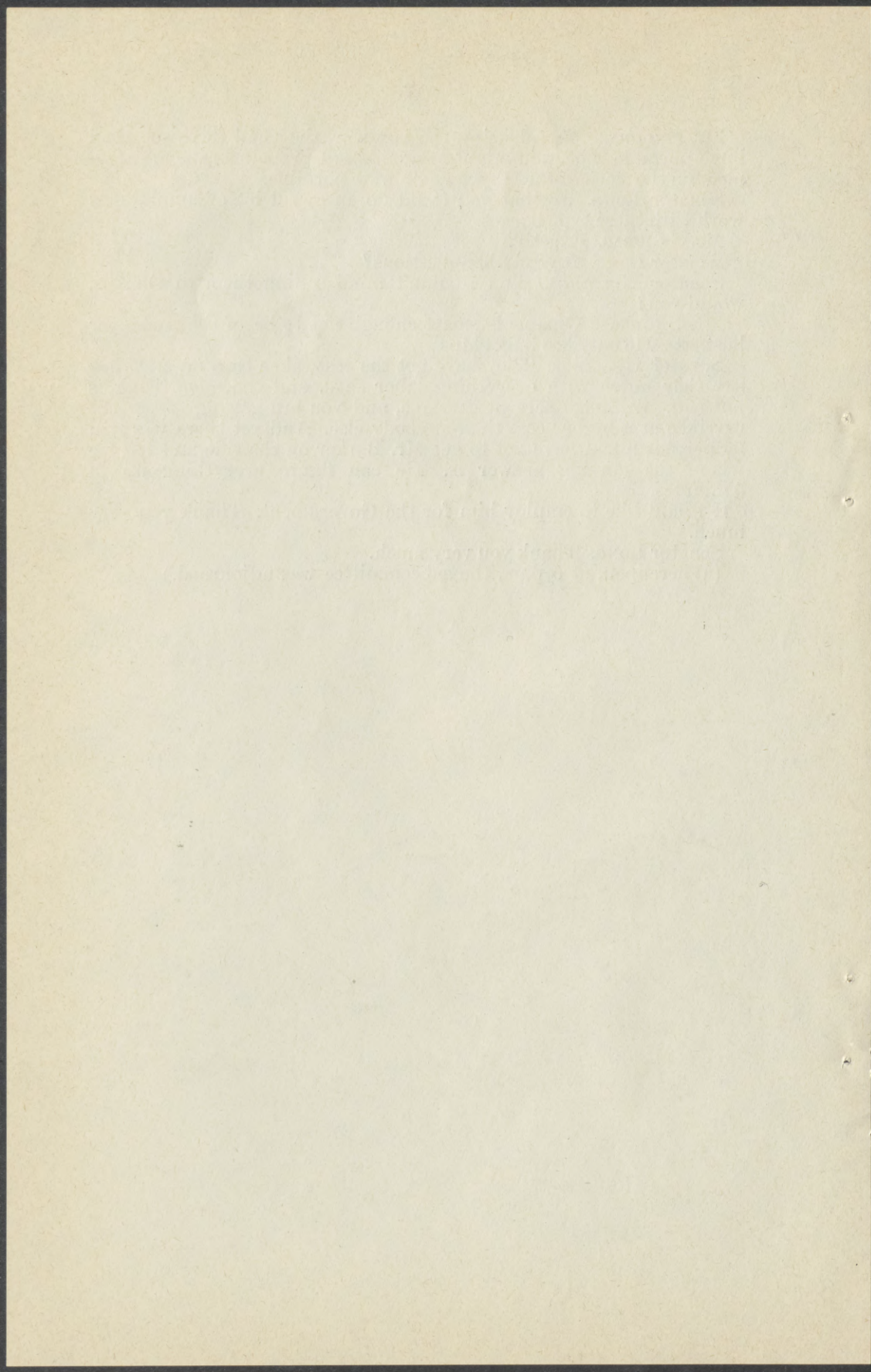
Mr. SKOURAS. Onassis is smart enough not to be in the passenger business. He only has bulk ships.

Senator HOLLINGS. They have got the cost taken care of, and they say they agree with everything labor says, and the advertising is not bad. We got 5-percent carriage, and you are getting 95-percent carriage at a higher cost than anybody else. And yet there was still 95 percent fill. I have got to get Mr. Barker on the side and tell me where the missing answer is. He can figure everything up in 5 minutes.

I would like to employ him for the Government. Thank you very much.

Senator LONG. Thank you very much.

(Whereupon, at 5 p.m., the subcommittee was adjourned.)



## AUTHORIZE THE FOREIGN SALE OF CERTAIN PASSENGER VESSELS

TUESDAY, MARCH 14, 1972

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
SUBCOMMITTEE ON MERCHANT MARINE,  
*Washington, D.C.*

The subcommittee met at 2 p.m., in room 5110, New Senate Office Building, Hon. Ernest F. Hollings, presiding.

Present: Senators Pastore and Hollings.

Senator HOLLINGS. The committee will please come to order.

We will continue our hearings on H.R. 11589, to authorize foreign sale of certain passenger vessels.

We are pleased to have the Honorable Andrew Gibson, Assistant Secretary of Commerce for Maritime Affairs.

We welcome you, Mr. Gibson.

### STATEMENT OF HON. ANDREW GIBSON, ASSISTANT SECRETARY OF COMMERCE FOR MARITIME AFFAIRS, DEPARTMENT OF COMMERCE; ACCOMPANIED BY HOWARD F. CASEY, ASSISTANT ADMINISTRATOR FOR MARITIME AIDS

Mr. GIBSON. Thank you.

I have with me Howard Casey, who heads the Office of Maritime Aids.

I am pleased to appear before you to testify with respect to H.R. 11589, a bill to authorize the sale of certain passenger vessels.

The bill under consideration would, for certain U.S. passenger vessels now in inactive or layup status, remove the restrictions of section 503 of the Merchant Marine Act, 1936, with prior approval of the Secretary of Commerce.

The bill further provides that such approval be conditioned upon all indebtedness on these vessels being discharged prior to transfer. H.R. 11589 would require, as a condition precedent to such approval, that alien transferees enter into agreements to make the vessels available to the United States in the event of emergency with just compensation to their owners, that the vessels will not compete with U.S.-flag passenger ships and that adequate surety be obtained to secure performance of the foregoing agreements.

In addition, approval of the Secretary would be conditioned upon an undertaking by the seller that the net proceeds of such sales be invested in the construction of new vessels which effectuate the purposes and policies of the President's Merchant Marine program of 1970.

Section 503 of the Merchant Marine Act, 1936, requires that vessels built with the aid of construction-differential subsidy remain documented under the laws of the United States for 25 years. Consequently, the U.S. passenger vessels, which are all younger than 25 years old, cannot be sold foreign unless legislation such as H.R. 11589 is enacted.

The bill exempts the steamships *United States* and *Independence* from its application, thus retaining the restrictions against foreign sale. It also provides that the Secretary of Commerce is authorized to purchase the *United States* for the National Defense Reserve Fleet or for sale or charter to a qualified operator for operation under the American flag.

There are seven American-flag passenger vessels presently laid up. These are the *Santa Rosa* and *Santa Paula*, owned by Prudential-Grace lines; the *United States*, owned by United States Lines; the *Brasil* and *Argentina*, owned by Moore-McCormack Lines; and the *Independence*, and the *Constitution* owned by American Export Isbrandtsen Lines.

I would like to devote the first part of this testimony to a brief description of the Government's support to date of the construction and operation of these vessels.

All of these vessels and the *Atlantic* which was recently sold were either constructed with the aid of Government subsidy or were actually built by the Government.

Subsequent to their construction, several of these vessels also underwent various conversions and reconstructions.

Table I, which is attached to the copy of my statement you have received, sets forth the approximate total cost of these vessels and the Government's contribution toward this cost of over \$180 million.

(The table follows:)

TABLE I

Vessel	Year built	Total cost <sup>1</sup>	Government's share
PRESIDENT WILSON.....	1948	\$46.6	\$31.7
PRESIDENT CLEVELAND.....	1947		
MONTEREY.....	1952	49.1	22.1
MARIPOSA.....	1953		
SANTA ROSA.....	1958	50.1	20.7
SANTA PAULA.....	1958		
INDEPENDENCE.....	1951	80.1	37.2
CONSTITUTION.....	1951		
ATLANTIC.....	1953		
BRASIL.....	1958	57.3	24.2
ARGENTINA.....	1958		
UNITED STATES.....	1952	79.5	44.5
Total.....		362.6	180.4

<sup>1</sup> All figures are in millions of dollars.

<sup>2</sup> The Government's share includes:

- (a) Construction cost of vessels built by the Government (less any amount realized on their sale to the operators). These vessels include the CLEVELAND, the WILSON, the MONTEREY, the MARIPOSA, and the ATLANTIC.
- (b) The construction-differential subsidy and the cost of national defense features on both newly built vessels and reconstructed vessels.

Mr. GIBSON. In addition, the Government has paid substantial amounts of operating differential subsidy for these vessels. Table II shows the amount of operating differential subsidy for each of these

vessels paid by the Government or accrued since 1955. A total expenditure of \$569 million of operating differential subsidy has been paid or accrued by the Government over the last 17 years.

(The table follows:)

TABLE II.—OPERATING-DIFFERENTIAL SUBSIDY PAID OR ACCRUED

Vessel	Time frame	Amount <sup>1</sup>
PRESIDENTS' CLEVELAND and WILSON.....	1955-71	\$103.3
MONTEREY and MARIPOSA.....	1956-71	78.0
SANTAS' ROSA and PAULA.....	1958-71	54.6
INDEPENDENCE, CONSTITUTION and ATLANTIC.....	1955-68	148.9
BRASIL and ARGENTINA.....	1958-69	65.9
UNITED STATES.....	1955-69	118.3
Total.....		569.0

<sup>1</sup> All figures are in millions of dollars.

In addition to the construction and operating differential subsidies paid for the American-flag passenger ships' construction, reconstruction, and operation, there are other Government financial supports in the form of Government impelled passengers. In each year since 1962, the Department of Defense Appropriation Act has required that funds made available annually by that act for travel expenses be expended only for the procurement of commercial passenger sea transportation service on American-flag vessels. The amount expended under this act between 1962 and 1971 on American passenger vessels totaled \$74.7 million.

Other agencies of the Government similarly supported these vessels, albeit to a lesser magnitude. While statistics are unavailable for all Government sponsored passengers and U.S. mail, the figures for the *United States* for calendar year 1968 are illustrative. For that year the total voyage revenue of \$16.9 million (which does not include estimated accrued operating subsidy of \$10.5 million) included Government-sponsored passenger revenue of \$3.4 million, and \$392,000 for U.S. mail. The Government passenger total represented approximately 26 percent of the total number of passengers carried by the *United States*, and approximately 22 percent of the total passenger revenue.

Despite this Government assistance, American-flag passenger ships have generally been unable to operate at a profit.

Table III shows the estimated net profit or loss for these vessels during the period 1965 through 1970. During 1970, large operating losses were sustained by all American passenger vessels still in operation with the exception of the *Mariposa* and the *Monterey*.

For example, the loss for the *Santa Rosa* and the *Santa Paula* was estimated at \$2 million after accrued subsidy of \$7 million, and the estimated loss for the *President's Cleveland* and *Wilson* was \$2.4 million after accrued subsidy of \$9.5 million.

(The table follows:)

TABLE III.—STATEMENT SHOWING THE ESTIMATED OPERATING-DIFFERENTIAL SUBSIDY PAID BY THE UNITED STATES, AND THE ESTIMATED NET PROFIT OR (LOSS) AFTER SUCH SUBSIDY, FOR THE OPERATION OF UNITED STATES-FLAG PASSENGER AND PASSENGER-COMBINATION SHIPS FOR CALENDAR YEARS 1965 THROUGH 1970 <sup>1</sup>

Subsidized operator and name of ship	Calendar year	Estimated total operating-differential subsidy	Estimated net profit or (loss)
American Export Isbrandtsen Lines, Inc.:			
INDEPENDENCE AND CONSTITUTION <sup>2</sup> .....	1965	\$9,520,000	\$(960,000)
Do.....	1966	10,690,000	(1,950,000)
Do.....	1967	12,020,000	(3,480,000)
Do.....	1968	7,990,000	(5,970,000)
ATLANTIC.....	1965	3,020,000	(640,000)
Do.....	1966	3,000,000	(1,240,000)
Do.....	1967	2,920,000	(1,380,000)
Moore-McCormack Lines Incorporated:			
ARGENTINA AND BRASIL <sup>2</sup> .....	1965	4,910,000	(1,830,000)
Do.....	1966	6,700,000	(900,000)
Do.....	1967	7,460,000	(410,000)
Do.....	1968	6,800,000	(2,570,000)
Do.....	1969	6,490,000	(470,000)
Prudential-Grace Lines, Inc.:			
SANTA PAULA AND SANTA ROSA <sup>2</sup> .....	1965	3,820,000	(610,000)
Do.....	1966	4,840,000	420,000
Do.....	1967	5,140,000	720,000
Do.....	1968	5,430,000	880,000
Do.....	1969	6,170,000	(550,000)
Do.....	1970	7,000,000	(2,048,000)
MAGDALENA-type combos <sup>2</sup> .....	1965	3,700,000	2,910,000
Do.....	1966	4,540,000	6,270,000
Do.....	1967	4,650,000	4,410,000
Do.....	1968	4,960,000	3,380,000
Do.....	1969	5,390,000	(210,000)
Do.....	1970	6,900,000	(1,547,000)
United States Lines, Inc.:			
UNITED STATES.....	1965	7,910,000	(2,780,000)
Do.....	1966	9,760,000	(500,000)
Do.....	1967	9,970,000	(3,100,000)
Do.....	1968	10,570,000	(5,470,000)
Do.....	1969	8,580,000	(4,620,000)
American President Lines, Ltd.:			
PRESIDENT CLEVELAND AND PRESIDENT WILSON <sup>2</sup> .....	1965	6,280,000	700,000
Do.....	1966	6,770,000	480,000
Do.....	1967	5,770,000	(1,250,000)
Do.....	1968	6,770,000	(2,370,000)
Do.....	1969	8,580,000	(1,240,000)
Do.....	1970	9,500,000	(2,394,000)
PRESIDENT ROOSEVELT.....	1965	2,970,000	(750,000)
Do.....	1966	2,710,000	(910,000)
Do.....	1967	3,590,000	(1,150,000)
Do.....	1968	3,130,000	(1,150,000)
Do.....	1969	4,300,000	(1,080,000)
Do.....	1970	1,200,000	(435,000)
The Oceanic Steamship Company:			
MARIPOSA AND MONTEREY <sup>2</sup> .....	1965	4,600,000	1,380,000
Do.....	1966	5,250,000	1,810,000
Do.....	1967	5,240,000	1,350,000
Do.....	1968	5,880,000	2,130,000
Do.....	1969	7,330,000	2,490,000
Do.....	1970	7,800,000	1,312,000

<sup>1</sup> Figures have been rounded to the nearest \$10,000.

<sup>2</sup> Sister ships.

<sup>3</sup> The MAGDALENA type combos are named the SANTAS MAGDALENA, MARIANA, MARIA and MERCEDES.

MR. GIBSON. The financial problems I have just referred to can be directly related to a decline in passenger traffic. I would like to detail some of the factors which have led to the decline in passenger traffic not only on American-flag passenger vessels, but also on foreign-flag passenger vessels.

On the transatlantic route, in the period 1961 to 1970 total passenger traffic increased by 190 percent, from 2.2 million to 6.4 million. During this period, the number of passengers traveling by sea fell by 70 percent, from 501,000 to 152,000; and the percentage of total passengers traveling by sea declined from 23 to 2 percent.

The introduction of jet passenger aircraft, commencing in 1958, was chiefly responsible for both the overall increase in transatlantic passengers and the steady decrease of the percentage of passengers traveling by sea.

In 1960, foreign-flag transatlantic passenger vessels scheduled a total of 573 eastbound crossings. In 1965, that total dropped to 355; in 1970, 145; and in 1972 will dwindle to 83.

In 1960, Britain's Cunard Line operated 10 passenger vessels in the transatlantic service with a total of 145 sailings. In 1965, seven vessels with 92 sailings were operated, only one vessel will be operated in 1972 with 12 sailings.

Similar decreases occurred to the passenger service of the Holland-America Line. In 1960, it operated seven vessels with 78 transatlantic eastbound crossings. In 1965, there were six vessels with 59 crossings, in 1970 three vessels with only six crossings and in 1972, none are scheduled.

Italian Line, Norwegian American Line, Hamburg-American Line and others, including, of course, American-flag companies, experienced similar decreased transatlantic sailings.

American passenger vessels in 1960 had 63 eastbound crossings. In 1968, they had only 28 eastbound crossings. After 1968, American transatlantic passenger service terminated. Together with the decreased number of sailings during this period, American passenger vessels, in most cases, suffered a decrease in utilization of available berths.

Senator PASTORE. May I interrupt for a question?

Senator HOLLINGS. Yes, sir.

Senator PASTORE. Mr. Gibson, as far as foreign-flag passenger vessels are concerned, are they nationally owned? For instance, you say here the Italian Line, the Norwegian Line, and so on, are they nationally owned or privately owned?

Mr. GIBSON. No, sir, they are privately owned although Italian Line receives considerable subsidy from the Government. The French Line receives some subsidy from the French Government. They are all privately owned.

Senator PASTORE. After 1968, you say all American-flag trips were canceled, of American ships?

Mr. GIBSON. On the North Atlantic.

Senator PASTORE. On the North Atlantic.

Mr. GIBSON. Yes, sir. The Maritime Administration has cooperated with the companies in attempting to deal with the problems created by the decreasing passenger traffic. For example, prior to the layup of the *United States*, MarAd explored and considered with the owners various proposals to improve the economics of the operation.

When, in September 1969, United States Lines requested deferment of principal payments on the *United States* indebtedness, the Government granted a moratorium on all principal payments falling due under the mortgage from 1970 to the maturity date of the mortgage in 1977 conditioned with an adjustment in the interest rate to reflect the effective cost of money to the U.S. Government. The effect of this action deferred the owner's requirement to pay approximately \$857,000 of principal annually until 1977, or until the ship is disposed of.

In the past the Maritime Administration has supported the re-organization of a shipping company in order to intensify the company's efforts in the passenger ship portion of their business. American President Lines tried this approach in 1968, but it proved to be unsuccessful and was abandoned.

The Maritime Administration has consistently approached the administration of the operating differential subsidy contracts as they relate to passenger ships in a manner which would provide the greatest flexibility within the law for the operation of these ships. The service descriptions contained in the contracts generally reflect those routes and areas which the owners of the ships desired to serve, and in fact constitute the routes and services for which most of the ships were originally built. Numerous amendments have been made to the contracts over the years to include within the service descriptions other ports and areas which the owners believed would assist them in attracting more passengers. The minimum sailings required and the maximum sailings permitted were established with the view assuring full annual employment of each vessel as well as allowing the operator flexibility in scheduling the vessels.

Further assistance to the companies operating passenger vessels and passenger-cargo combination vessels took place in April 1970 when the Maritime Administration revised the method of paying operating differential subsidy for 90 percent of wage subsidies from a quarterly to a monthly basis. This change was made on the basis of the demonstrated need by the companies for working capital and due to the fact that the operating expenses of the passenger vessels are so much higher than for cargo vessels. There was a valid reason for making subsidy payments with respect to such vessels more frequently than quarterly. Subsidy has been paid on a monthly basis to date.

The Maritime Administration supported the cruise legislation enacted in 1961, and every effort was made to implement the legislation promptly. Although Public Law 87-45 was approved May 27, 1961, our record shows that 10 cruises were performed by U.S.-flag passenger ships in the remainder of that year.

The Maritime Administration also supported the 1968 liberalized cruise legislation to permit cruising up to two-thirds of the year. In 1970, the Maritime Administration also supported further amendments to the law eliminating the requirement for reduction of operating differential subsidy and the partial payback of construction differential subsidy for operating passenger ships in the domestic trades. Here again the appropriate contracts were amended where so requested by the operators to implement the new legislation.

Notwithstanding the assistance provided by the Maritime Administration in the construction and operating of American-flag passenger vessels and our efforts to assist vessel operators in coping with the decline in passenger-ship traffic, most of the operators have been forced to lay up their vessels. I say "forced" because there were no practical alternatives to layup. Under the law the vessels could not be sold foreign, and no American group was available which was willing or able to undertake their operation.

Since layup, it has become increasingly apparent that there is no feasible way for any of the existing operators to place these vessels

back in service under the American flag under existing law. Further, no American group has presented to the Maritime Administration a viable plan for reactivation. In view of this, the alternatives appear to be continued maintenance in layup by the operators; sale of the vessels to the United States as a defense asset, or authorization of foreign sale of the vessels.

Retention of all of the vessels for defense purposes is apparently not practical. The Department of Defense has indicated that retention of all laid-up passenger ships cannot be justified economically and that present DOD airlift/sealift programs are more effective in meeting our military transportation needs. However, retention of the *United States*, with its unique defense capabilities, may well be justifiable, assuming that funding of its purchase can be justified by then existing budget priorities. DOD has further indicated that our defense capability would be enhanced by requiring, as a condition of any foreign sale of these vessels, that they may be made available to the United States in time of emergency. This is provided for in H.R. 11589.

Senator PASTORE. How would that work, Mr. Gibson?

Mr. GIBSON. We would insist that in the contract—this has been done with a number of ships that have been overage—that they be made available and they post a bond that they would be available. We agree to compensate for the use of the ship if requisitioned.

Senator PASTORE. Do we know now the foreign governments to whom these might be sold.

Mr. GIBSON. The only two I know of is the Moore-McCormack ships, that was a purchase agreement by the Holland-American Line. I am not aware of any other specific sales.

Senator PASTORE. How many ships are we concerned with?

Mr. GIBSON. The two Moore-McCormack, the two Grace line, and one other.

Senator PASTORE. Five altogether?

Mr. GIBSON. Yes, sir. Since commercial reactivation of our laid-up vessels under the U.S. flag is practically foreclosed, we would focus attention on the effects of the continued layup on the operating companies concerned and the possible relief offered by foreign sale of the vessels. We should also focus on the opportunities for employment and the modernization of our merchant fleet which sale offers.

Annual layup costs for the two ships of Prudential-Grace Lines are \$1.5 million and the total projected layup costs for the remainder of the useful life of the vessel are \$14.4 million. Moore-McCormack is experiencing annual layup costs of \$2 million, with total projected costs of \$17.7 million. United States Lines has annual layup costs of \$827,000 and may experience total layup costs of \$12.3 million.

Senator PASTORE. Does that mean, Mr. Gibson, that at the rate of \$2 million a year as against the total cost of \$17.7 million in a period of less than 9 years, the ship itself will be junk?

Mr. GIBSON. Yes, sir.

Senator PASTORE. That is what it means, doesn't it?

Mr. GIBSON. That is right. We are requiring the companies to spend \$17.7 million for something that will be scrap at the end of the time. Annual layup costs for American Export-Isbrandtsen's *Constitution* are \$602,000 and they may experience total layup costs of \$2.7 million.

The owners of these laid-up passenger ships have recently experienced financial reverses which have had an adverse effect on their working capital positions. The financial difficulties of these companies in part result from the uneconomic operation of passenger vessels and the drain on their financial resources occasioned by the layup of these ships. The layup costs of these vessels are especially significant in view of the strained financial positions of the owning companies and a continuation of such costs can ultimately affect the ability of these companies to operate as cargo carriers.

Senator PASTORE. May I ask another question. In any shape or form do we render these companies any subsidies at all that might be construed as going into this layup cost?

Mr. GIBSON. No, sir, we do not.

Senator PASTORE. We do not?

Mr. GIBSON. No, sir. More immediately, the companies in question have limited capital reserve funds which could aid them in obtaining the modern vessels, necessary for competition in today's markets, in part as a result of the necessity to use these funds to provide adequate working capital. Thus, in addition to a shortage of operating funds which may become critical in the near future, the companies are presently unable to obtain modern, economical ships with which they could compete and improve their situation.

Sale of six of the present laid up passenger ships would have a positive effect on cash flow of operators, alleviating a serious drain on the companies' resources. Moreover, the net proceeds of such sales could be converted into new and viable cargo vessels to serve our foreign commerce. This would have an obviously beneficial effect on the American merchant marine on seagoing labor in the form of jobs that would not otherwise be available as well as upon the shore side labor force and the shipbuilding and ship repair industries.

Funds provided by the sale of these ships could be employed to great advantage by the operators concerned. Some of the companies presently have a significant amount of war-built tonnage still in operation which soon must be replaced. American Export-Isbrandtsen presently has five C-3's and two C-2's. Prudential-Grace is still operating five C-3's.

I would now like to discuss in some detail the possible beneficial effects the sale of these ships could have. The figures I will discuss are our best estimates and present a picture of the beneficial results that can flow from the sale of the ships.

If it is assumed that the gross sale price of the six vessels in question would be approximately \$51.5 million, a price very closely related to their book value, and the existing outstanding mortgage balance of about \$22.2 million is deducted, the owners would receive net proceeds of approximately \$29.3 million. In addition to such net proceeds, the disposal of these vessels would terminate the outflow of cash which would be incurred by the operators for the maintenance of the ships in layup and for payment of principal and interest on outstanding mortgage debt during the remaining economic life of the vessels, estimated at an aggregate of about \$47 million. The positive effect upon the cash flow of the owning companies which would result would be \$76.3 million.

We have proposed that the net proceeds of any sale of the passenger vessels be invested in modern cargo tonnage meeting the

criteria of the 1970 program within 1 year after sale. Such reinvestment would immediately produce measurable benefits to the American merchant marine. Using an estimated domestic price of \$25 million per modern cargo ship built and considering construction differential subsidy applicable thereto of 41 percent or \$10.25 million per ship, and title XI financing of 75 percent of the owner's cost, or \$11 million per ship, the equity investment per vessel would amount to approximately \$3.75 million. It could therefore be possible for the four companies involved to contract for the construction of up to seven modern cargo ships with the proceeds generated by the disposition of their passenger vessels.

Senator PASTORE. Is there a condition that they must be American built?

Mr. GIBSON. Yes, sir. To take this analysis one step further, a determination could be made as to what the addition of seven modern, American-flag cargo ships to our fleet would mean in terms of merchant marine employment. On the basis of a complement of 30 men per ship and a turnover rate of approximately two for one for each position, these new vessels would provide about 420 jobs in the very near future, jobs that would not otherwise be available for seamen.

In addition to the immediate effects, the savings of almost \$47 million in layup costs and debt service costs over the economic lives of the vessels would provide additional funds in substantial amounts for new ship construction over the coming years, assuming profitable operations.

If the analysis I have just referred to were used and the scrap value of \$6.5 million deducted from the savings in layup expense of \$46 million, you could project that an additional 10 ships could be built providing an additional 600 jobs. Thus, with the proceeds of the sales and the savings in layup costs, a total of 17 modern cargo ships could be built and 1,020 permanent jobs could be provided for maritime labor.

Finally, the construction and operation of additional new ships would substantially benefit shore-side industry and employment. We estimate that the construction of the seven ships previously referred to would involve 5,250 man years of shipyard employment alone. In addition, 7,500 man years of shipyard employment would be provided by the construction of the 10 ships which could be built with layup cost savings.

It is our conclusion based upon all of the facts and information available to us that the sale of the laidup U.S. passenger vessels, as provided in H.R. 11589, is the only practical alternative for the hard-pressed companies which own these vessels. In addition, if legislation authorizing such sale requires that the net proceeds be invested in new cargo tonnage meeting the criteria of the 1970 program, we believe that the sale of these ships could produce significant benefits for the merchant marine, maritime labor and related shore-side industry.

With respect to the purchase of the *United States* by the Secretary of Commerce for retention in the National Defense Reserve Fleet, the Department of Defense has indicated that, while present airlift/sealift programs are the most effective way of meeting our defense

transportation needs, the *United States* could supply additional capabilities. Consequently, if authorized to purchase the vessel, the Department of Commerce would take steps to purchase her, subject, of course, to an allocation of sufficient appropriations through the budgetary process, which necessarily involves consideration of national priorities at that time.

This concludes my testimony. I would be pleased to answer any questions you may have.

Senator HOLLINGS. Mr. Gibson, let's begin at the beginning, now.

I have listened with interest. You have testified practically to the same effect almost 6 months ago. During the 6 months' time, and Mrs. Sullivan on the House side raised the question, you and your good offices were forming a focal point, did you get together the labor and management of this to see what couldn't be salvaged and what program could be promulgated? You were asked that question. Have you in the last 6 months attempted in any way to reconcile these parties and try to promulgate a program to save passenger carriage, passenger fleet passengers for the United States?

Mr. GIBSON. At the time of the hearings, Mr. Chairman, there was some consideration of doing a detailed study. We provided an estimate of the costs to the chairman.

In our judgment, it wasn't justified and the chairman of that committee agreed with that. Now I am convinced and I have so testified that if there was anything that the Maritime Labor could properly do in the way of crew reduction, in the way of changes in the work rules to make these ships viable, they would do it. The companies have no doubt of that, I have no doubt of that.

We are talking about a service business that requires a large number of people to serve well, and while the offer to cut crews is a bona fide one, there is a real limitation on how far you can cut crews and still offer service.

Now, neither the companies nor we have been able to work an equation notwithstanding the genuineness of the offer on the part of the unions to make these ships even break even, far less profitable.

Senator HOLLINGS. What attempts have been made to really get them together? Any at all by your office?

Mr. GIBSON. I consider there was no need to. They meet the companies—the companies and the unions meet constantly. I am not privy to what they have done in the last 6 months, but there has been no reluctance on the union's part to discuss this in the most genuine sort of way.

I am unaware of any hesitancy on the part of the union where I could offer any assistance to improve communication.

Senator HOLLINGS. You don't think in your capacity as the Assistant Secretary of Commerce in charge of maritime affairs that you could make some attempt, or your office is empowered with some responsibility to preserve a passenger fleet for the United States? You don't think you have that function at all?

Mr. GIBSON. I am well aware of my responsibilities to maintain the entire merchant marine of which these ships are a part. I believe we have done a great many things within the limits of the law to make that happen.

I understood your question to be what we had done as far as the unions and management were concerned to encourage them to get together. I am stating that I am unaware of any reluctance or lack of any genuineness on the part of the unions to make this thing happen.

I frankly don't know what I could have done and nobody has ever indicated to me that there was any need to generate union cooperation. It has been there, it has been there a long time, it has been genuine.

Senator HOLLINGS. I am not talking about the isolated factor that goes into it of union and management agreement in getting together. I am talking about the broader aspect of the entire subject; namely, your job and my job.

I think that we in the Congress and you in the administration should be emburdened with some conscience and some awareness and some duty and responsibility to make every last-ditch effort we could to save some passenger capability in the merchant marine.

We see this in the railroads, they have operated for years, or the regular city buslines, and what have you. The city buslines almost operated on the power of revenues. The train companies have always operated on the freight revenues.

I imagine in large measure the steamship lines have operated their freight at a profit and have carried for some time—even at a loss—the passengers. Isn't that correct?

Mr. GIBSON. Yes, sir; they have. A number of these companies have never made money with their passenger ships, particularly Moore-McCormack.

Senator HOLLINGS. How long has that been the case?

Mr. GIBSON. I think that was 12 years, from the day they were built, they never showed a profit.

Senator HOLLINGS. Was that in the way they kept their books?

Mr. GIBSON. No, it was not.

Senator HOLLINGS. So that the day the Government put out \$108 million to build these ships, the companies took them on with a pledge to keep them in service for a period of 25 years, knowing all along they would be losing for 25 years?

Mr. GIBSON. No, sir; I think at the time they were built without exception these companies expected to show a profit. In fact, a number of them in their early years did. The Moore-McCormack Co. is the exception. Apart from those two ships, all of them showed a profit in the early years.

In fact, the company I was associated with had a profitable passenger operation up until 1967. At that time—

Senator HOLLINGS. What company was that?

Mr. GIBSON. Grace Line.

Senator HOLLINGS. You were associated with Grace Line until 1967?

Mr. GIBSON. Yes.

Senator HOLLINGS. Are you familiar with the Grace Line transaction with Prudential?

Mr. GIBSON. I am generally familiar with it. I disqualified myself from anything to do with that since I have been in my present job.

Senator HOLLINGS. Are you aware of the fact that they pledged

for the payments—that pledge was far in excess of reserve payments of the combined revenue of Grace Lines and Prudential at that time. Are you aware of that?

Mr. GIBSON. Yes.

Senator HOLLINGS. In other words, you and I don't have a financial problem. This is not our problem.

Mr. GIBSON. I am really not in a position to discuss that transaction, Mr. Chairman.

Senator HOLLINGS. I am talking generally with regard to the U.S. Government vis-a-vis the shipping lines themselves. We don't have a financial problem. If they can buy and sell out each other and keep their books and make such transactions as they wish, there is nothing we can do to control that.

Mr. GIBSON. I would have to disagree. First of all, I don't think this was merely a bookkeeping transaction. I believe they were utilizing reserve funds for purchase. This has been done before; I believe successfully done.

All of the sales or transactions involving the subsidized lines do, in fact, pass through the Government and have to be approved by the Government. This is not done to the exclusion of the Government.

Senator HOLLINGS. Why would the Government approve a merger that couldn't be paid out, wasn't economically feasible?

Mr. GIBSON. I am convinced that the people involved in that merger and approved it, anticipated it could. I am aware that they took certain contingent steps that if their judgment were wrong that company would be preserved; in other words, there were fairly large reserves, as I understand it, earmarked for a mistake in judgment.

Senator HOLLINGS. Of course, those have long since been consumed. They have been laid up for 2 years.

Mr. GIBSON. We are talking about the entire company. The entire Grace-Prudential merger, and the—it wasn't tailored to the passenger operation solely, sir.

Senator HOLLINGS. In fact, the passenger ship capability is really not tailored to the holding companies that now hold this? You really think Moore-McCormack really has any intent of staying anyway in the passenger vessel business whatever?

Mr. GIBSON. No, they do not.

Senator HOLLINGS. They have no idea of doing that.

Mr. GIBSON. That is correct.

Senator HOLLINGS. So it is not a financial problem of ours, it is a problem if we can create some situation where it would be to their benefit and be to the Government's benefit generally to try to maintain this if it can be done. It seems like your office would give leadership to that. You haven't tried to get together the parties at all?

Mr. GIBSON. We have—I have been here for 3 years. In the early days when this was clearly a problem and before most of these ships were laid up, we went to considerable lengths to try and devise means to continue their operation. The companies have stated—

Senator HOLLINGS. Did you call in the unions, too?

Mr. GIBSON. We have had meetings with both the unions and the companies.

Senator HOLLINGS. You did have a meeting so—you said, "We were going to try to maintain this and see what both sides could give and understand what conditions they could operate"?

Mr. GIBSON. I have never discussed in detail the operating problems because I was always well aware of the unions' offer to make any necessary operating or contractual changes to keep these ships in operation. I say the record is clear.

Senator PASTORE. May I interrupt at this point?

Senator HOLLINGS. Yes, sir.

Senator PASTORE. If these six ships were put afloat, how many jobs would this provide?

Mr. GIBSON. Oh, roughly 5,000. There are gentlemen in this room that can answer that better than I can.

Senator PASTORE. 5,000 jobs.

Mr. GIBSON. On construction of those ships immediately, and 420 in vessel operation. I would say that would be it.

Senator PASTORE. How many people were employed in this layup situation?

Mr. GIBSON. A handful. To the best of my knowledge there is a watchman employed on most of these ships.

Senator PASTORE. You say if these new ships passes, you can provide 450 jobs in building?

Mr. GIBSON. 450 from the proceeds and an estimated—another better than 600 if, as a trade-off for the losses they are now incurring in keeping these in layup.

The problem, Senator, is that there is no way that either we or the companies or the unions, for that matter—I say this because there has been any number of proposals—have for operating these ships under the present law. In other words, the subsidy law provides only for parity payment. I am authorized to pay these companies the differential between what the merchant seaman's wages are and those of the foreign competition. For example, Export Isbrandtsen Lines in the Mediterranean, their principal competition was the Italian Line on that trade route.

The way the subsidy law is structured, we would pay them whatever the differential was, say, between the Italian crew cost and their own.

Now, there is nothing in the law that provides a subsidy to make up for loss. These companies were at maximum subsidy payments. We have made some estimates of what it would take to operate the seven ships all together we are talking about, two not included in this law.

At the current level of operating subsidy, it would—we would be authorized to pay them approximately \$37 million to operate all of those ships.

By their own statements and our evaluation of their statements, they believe it would cost them \$70 million to operate them, forgetting all the startup costs of ships that have been laid up for a number of years, but there is no way under the law that we can pay them this differential between these \$37 million which the law provides and the \$70 million it would take to operate them at a modest profit.

Senator PASTORE. Unless the law were changed.

Mr. GIBSON. That is absolutely correct.

Senator PASTORE. That is what the chairman is talking about. Has anyone made a study of that?

Mr. GIBSON. This Administration would not propose a change.

Senator HOLLINGS. You say have not or would not or both?

Mr. GIBSON. Would not.

Senator HOLLINGS. What I am getting at is not all this subsidy and all that. Let me go to the point of the number of jobs. You are aware that it was undisputed 2 weeks ago, these gentlemen agreed that there could be four vessels from the proceeds of these sales that would have 26 men per vessel and we were talking about 104 jobs.

Now, like my friend Melvin Belli says, "You can project every hour of pain and get up into a good high thing." You can do it like you have done it here and add so many more things, but they both agreed we were talking 104 jobs.

So you and I could disagree but I don't see it from the matter of jobs. I don't see that financially we have a problem. But I am talking about passenger fleet capability with respect to the Maritime Administration trying to promulgate this into a consortium of some kind. Hasn't that been the experience of the British with respect to freight carriers? Aren't freight carriers in this country in jeopardy right now among the shipping lines?

Mr. GIBSON. In 1968 the several American-flag companies, namely, American Export Isbrandtsen, Moore-McCormack, and United States Lines, proposed the establishment of such a joint company.

The Maritime Administration supported that consortium as a possible means of reducing overhead and improving efficiency.

Senator HOLLINGS. In what way would we have supported them?

Mr. GIBSON. We would have to give permission for them to do this. We indicated that if it was in their best interest and they could demonstrate it, they would have full cooperation from us in forming of their company.

This proposal failed because of the inability of these companies to provide certain—sufficient working capital to make this a viable company. They abandoned this effort.

Senator HOLLINGS. How much working capital was involved?

Mr. GIBSON. Well, what they had originally hoped to do was merely put—their contribution would be the ships themselves.

Then I guess to raise other capital for the operation of the ships, they were unable to do that. I don't know the exact amount.

Senator HOLLINGS. Could the Government propose or promulgate some plan of a consortium and thereby find out and thereby more economically know what passenger capability we would have?

Back to my original question, aren't the freight lines in jeopardy now?

Mr. GIBSON. I think under the American flag in Atlantic trades; we have probably one of the most modern fleets in the world.

We have dominated for several years the North Atlantic and North Pacific trades. The North Atlantic is going through a rate war where nobody is making any money. In fact, there has been very substantial losses both American flag and foreign carriers.

Senator HOLLINGS. All right.

Mr. GIBSON. So if we are saying that the world of freight market is depressed, that is accurate. The Americans are not unique.

Senator HOLLINGS. The British themselves have formed a consortium to try to preserve their capability, isn't that correct?

Mr. GIBSON. I think that consortium came about by the reluctance of the Europeans to make the necessary investments which the Americans have made. This is a high-risk business. The returns are somewhat small.

The American companies have, in fact, made the investments necessary without joining together. I think mainly through choice. A company like Sea-Land that tends to dominate the North Atlantic trade has never indicated the slightest intention of joining with anybody.

Senator HOLLINGS. But under your leadership, you would not wait for that, we are a business, we know that. What can we in Government do to promulgate the circumstances to make it attractive for them to go into business. That is the whole point.

I wonder what attempts have been made. This is what Mrs. Sullivan and everyone else has been trying to find out.

I am trying to be objective. I realize in the Congress we are not going to ask for  $x$  number of dollars for each person to go on a pleasure cruise. Yet, it is important defensewise because the Defense Department has put it in the record that they want right, title and interest to approve or disapprove any and all sales.

We do have the United States, we do have some good vessels there. They are paid for. The contracts under which they were built called for an operation of 25 years, plus a replacement. With all of that they haven't done it.

The question is, can there be some plan or program where you could put in a freight line to get by the momentary depression and from the profits made, carry on the passenger fleet?

Why hasn't an attempt been made at this?

Mr. GIBSON. The Administration is in this position: The 1936 Merchant Marine Act clearly spells out criteria which justifies the national support of a merchant marine. These generally have a twofold thrust. One is to provide transportation, the other is to provide sealift capability in times of national emergency.

When the 1936 act was passed, aircraft flights over long stretches of water were practically unheard of. If you wanted to go out to the Far East or Europe, you had to go by ship.

It made a great deal of sense for this country to be providing a certain capability for transportation of passengers under the American flag.

When World War II came on, without exception, those passenger ships were used as troop transports, again justifying, I think, the wisdom of maintaining that part of the American merchant marine.

The Department of Defense has repeatedly testified that they have little or no use for ships as a means of transporting troops although they do consider it—they consider it to have an advantage of the type ship, the size and speed of the *United States*, in reserve.

The fact is in practically 10 years of Vietnam, few, if any, of the troops have been transported by sea. There are no Navy or Government-owned troop ships transporting American troops. There are two small ships bringing down Korean troops from Korea but the fact is that from a national defense standpoint the Department of Defense says they do not need these ships. Certainly from a transportation standpoint there can be no case made for the continued support and the expanded support of these vessels.

I think the statistics are overwhelming that the large aircraft are totally taking over the transportation market so that two main thrusts which existed when the original law was passed which war-

ranted substantial expenditures to maintain this part of the merchant marine in my judgment no longer exist.

Senator HOLLINGS. Well, now, sir, maybe you don't understand the question. I don't mean to nag. You put in the defense factors; I will, too. If you go to the Secretary of the Navy, he will brief every Member of the Congress trying to point out the importance of the Navy, that 96 percent of everything carried into Vietnam was in a ship, whether it was material, troops, or otherwise. Only 4 percent was flown there. There has been a 12-year war and the 96 percent was by ship.

We cap that off with two other factors, the Bay of Pigs in Cuba when these gentlemen were all called in and asked how many vessels and how fast could you carry them and what capability they had. They said, "Well, we will use the transport." Anybody in Defense will tell you so that they don't want to economically add that on to the Defense budget, you see. They are not talking of the capability, they can give you the statistics on how to go out of business.

I am trying to find the facts at hand to go into business.

Now, specifically you said that there is no passenger fleet business at all. I have become interested in it because I am right next to where they are building the dock for the passenger fleet business. That is in the Southeast section of the United States, Virgin Islands, and the rest of that. You know about that trade. They operate in there and they operate with a profit.

Mr. GIBSON. I know they are operating, I don't know if they are operating at a profit or not.

Senator HOLLINGS. Now come, as Assistant Secretary of Commerce in charge of the Maritime Administration, you don't think they operate at a profit in all these vessels, considering the building of extra passenger docks and all, you are going to question whether they operate at a profit? Your testimony is that you don't know that passenger fleets are operating at a profit.

Mr. GIBSON. My testimony was I wasn't aware whether those Norwegians are or are not operating at a profit.

Senator HOLLINGS. And running the Maritime Administration you don't know?

Mr. GIBSON. Whether they are making a profit?

Senator HOLLINGS. Whether any line is making a profit.

Mr. GIBSON. We are talking about the passenger ships that operate out of Miami. I was quite aware initially when these ships came in they were undoubtedly profitable because others followed them in. There are so many down there now I would question at the present time whether they are all profitable but I certainly don't know.

Senator HOLLINGS. What about on the west coast? Any passenger fleets operating at a profit?

Mr. GIBSON. Yes, Pacific Far East Lines operates at a profit, always has.

Senator HOLLINGS. So is American President Lines, right?

Mr. GIBSON. No, sir, they have not operated at a profit for many years.

Senator HOLLINGS. I refer specifically to an article I will insert in the record. I am not trying to trip you up because it is new to me,

too. It is from the Fort Lauderdale News and it may not be accurate because it is only a newspaper story, but it is from the Fort Lauderdale News, Sunday, February 27.

We will insert it in the record.

It says:

The future looks bright for the U.S. flag passenger fleet—what is left of it. The once proud Atlantic fleet which boasted such things as the USS *United States* is rusting in ports along the East Coast. The vessels couldn't fight the impact of the airplane.

The last four liners flying the American flag operate out of San Francisco and their lines officials report increased revenue and expanding programs.

Keep Flag Flying—The SS President Cleveland and SS President Wilson (rear) pass each other in San Francisco Bay. The ships are half of the total U.S. Flag cruise fleet still in service and are making money for American President Lines. The Pacific Far East Lines is also showing profits on the other two, the SS Monterey and the SS Mariposa.

(The article follows:)

[From the Fort Lauderdale News and Sun-Sentinel, Sunday, Feb. 27, 1972]

#### FOUR LINERS SAIL TIDES OF PROFITS

(By James O. Clifford, United Press International)

SAN FRANCISCO—The future looks bright for the U.S.-flag passenger fleet—what's left of it.

The once proud Atlantic Fleet, which boasted such ships as the SS *United States*, is rusting in ports along the East Coast.

The vessels couldn't fight the impact of the airplane. The struggle came to an end on Jan. 21, 1971, when the SS *Santa Rosa* made her final voyage and brought the era of the American-owned Atlantic passenger liner to a close.

The last four liners flying the American flag operate out of San Francisco and their lines' officials report increased revenues and expanding programs.

#### NO LONGER LOSING

"We're no longer losing money," said John A. Traina Jr., general manager of the American President Lines' (APL) passenger division.

"We made money in our passenger division last year for the first time since 1965."

APL operates the SS *President Cleveland* and SS *President Wilson*, which this year will visit Europe, Asia and the South Pacific on a world cruise.

Pacific Far East Lines (PFEL) branched out into the passenger liner business recently with the purchase of the SS *Mariposa*, and SS *Monterey*.

Sam Mercer, Traina's opposite number at LFEL, said his passenger division also is operating in the black.

The same month the *Santa Rosa* made her final run, Mercer's company bought the two vessels from Matson Navigational Co., renowned for its luxurious cruise service.

"We kept the same crews and captain," Mercer said. "About all we did was change the sign on the smokestack."

"We are carrying on Matson's fine old tradition of luxury living aboard ship."

#### MONEY MAKERS

Mercer said the *Mariposa* and *Monterey* were both money makers while with Matson.

"It was the lurline, which was not subsidized, that lost money," he said.

"We made over \$1 million gross revenue last year and that was with hauling very little cargo aboard the two ships.

We'd make money even if we withdrew the cargo."

Both Traina and Mercer feel West Coast shipping lines had a lot more going for them than their eastern counterparts. They cite better cruise routes that

provided a relaxed atmosphere, making it unnecessary to compete with the airliner.

They also don't face the stiff competition from foreign flag vessels that plagued the eastern ships.

Government subsidies weren't enough to save the Atlantic Fleet and the Pacific spokesmen admit they couldn't operate without them.

"The subsidies give us parity with the foreign crew pay," Art Chase, an APL executive, said. "The government makes up the difference between an arrived-at average for foreign sailors and what we pay our men."

And Traina, a former purser aboard ship, thinks American crews are second to none.

#### NO BACK SEAT

"Our stewards don't have to take a back seat to anybody, including those on the French ships," he said.

"It's true that we must operate under the burden of inflationary costs and therefore our profit ratio may be lower than most foreign liners. Even under these conditions, we are still competing strongly and successfully for our share of the cruise market and plan to do so for a long time to come."

Traina said the upswing in the West Coast passenger service came early last year after the line increased its marketing stress on the leisure and luxury of cruising.

The cruises to the South Pacific, Hawaii and the Far East have always been geared toward luxurious living for the passengers. Now it is even more so on all four ships.

"We never did go in for trying to break speed records as they did in the East," Traina said. "And our ships are smaller so it helped lend a more personalized atmosphere."

The four ships, which carry about 350 passengers each, are set up for first class only.

#### COSTS LISTED

Accommodations, of course, depend on your bankroll. A two-berth cabin on the Wilson or Cleveland to Hawaii is \$400. Or how about the Royal and Magellan suites on the Wilson's round-the-world voyage in 1973: That's \$20,580.

But the little guy isn't left out. APL has a \$60 overnight cruise from San Francisco to Los Angeles that gives the passenger a taste of all the comforts provided the wealthy on the longer trips.

Both lines also provide package deals whereby a passenger can go by boat one way and by plane the other.

And both executives are anxiously awaiting what they think will be a further boon to their lines—the opening of China to American travelers.

Senator HOLLINGS. Now if I may quote more:

"We are no longer losing money," said John A. Trani, Jr., general manager of the American President Lines, Passenger Division. "We made money in Passenger Division last year for the first time since 1965."

They go on to the rest of the lines out there. But they are talking about the operation, in fact they go down to perhaps the increase now—"Both executives are awaiting what they think will be a further boon to their lines, the opening of China to American travelers."

Question: If I sell these to the foreign lines, am I really taking the last two operations that I have on the west coast and turning these over to foreign governments who will in turn operate in competition with them and put the last ones I have left out of business?

That is what bothers me. What is your comment about that?

Mr. GIBSON. Well, Pacific Far East Lines has ships that will be operating for a number of years. The two ships in the American President Lines are getting quite old. They were built in fact just after World War II, they were two troop ships upgraded to passenger ship level. They will be 25 years old next year and I question how long they will be in operation by anybody.

Senator HOLLINGS. So you think the United States passenger fleet is going out of business? It has had it?

Mr. GIBSON. Yes, sir.

Senator HOLLINGS. What about the Russian fleet? Is that the policy of this Government, to bring the Russian ships in here?

Mr. GIBSON. We can operate these ships like the Russians do. We just have to make the decision that we will operate them whether profitable or not and that we will provide sufficient funds to operate them. That is the Russian decision, not ours.

Senator HOLLINGS. Would it be your policy to bring in Russian passenger vessels?

Mr. GIBSON. Neither bring them in nor keep them out.

Senator HOLLINGS. So if they came in it would be all right.

Mr. GIBSON. I am not in a position to keep them out or bring them in.

Senator HOLLINGS. I am just asking your advice. You are the experienced administrator in the field and have been in this particular business for a long time. It strikes me as a matter of concern that we are about to, as you say, go out of business and bring in the Norwegian lines and perhaps then without a thought bring in the Russians and let them operate.

Would that be your policy?

Mr. GIBSON. Well, the American ports have been traditionally open to the flags of any vessel that wants to serve here, the Russians wouldn't be any different.

Senator HOLLINGS. Since we—that is you and I and the U.S. Government—do not owe anything to these passenger lines with all these losses and everything else, that is their red wagon. Why not in protection of the American taxpayers and that \$180 million plus a half billion dollars worth of subsidy that we have made, why don't we move to say let us handle the sale or participate in the profits?

In other words, since they are going out of business anyway, what are we going to do, give them \$30 million and say the problem is solved and that problem is out of the way? We are only talking about building four vessels and 104 jobs. I can't see that as a good congressional policy, that is what bothers me. Does that bother you?

Mr. GIBSON. We have said that rather than taking this money and running with it that they would have to use the entire proceeds to build new ships.

Senator HOLLINGS. Suppose the remaining ships of these two lines, the American President Lines on the west coast, plus the Pacific Far East Lines, suppose they suffer the same faith? Would you recommend that be done also? That they be sold out to foreign ownership?

Mr. GIBSON. Mr. Chairman, you quite rightly said I should know of these companies and condition they are in. I am very much aware of the financial condition of all of the four companies we are talking about. In the case of two of them it is precarious. Any financial burden that we would continue to impose on them such as the maintenance of tonnage that can produce no revenue I would be in favor of removing. If either American President Lines or Pacific Far East Lines were in a similar position I would advocate doing whatever was necessary to remove them of the unnecessary burden.

Senator HOLLINGS. So the way you see the policy of the U.S.

Government at the present time is that we are imposing a financial burden on the shipping lines?

Mr. GIBSON. No, sir, the present law gives us no alternative. The law is quite clear. This is why there is a proposed change in that law.

Senator HOLLINGS. But you say it gives no alternative. Are we imposing a burden on the shipping lines?

Mr. GIBSON. I believe the present law imposes an unnecessary burden because it doesn't provide any way that you can provide the funds for them to operate the ship successfully and it prevents them from disposing of this contingent burden.

Clearly at the time the law was written this set of circumstances was not foreseen.

Senator HOLLINGS. Thank you, Mr. Gibson. We appreciate you and Mr. Casey coming in today.

Mr. GIBSON. Thank you, Mr. Chairman.

Senator HOLLINGS. Jules Sokoloff, would you come forward, please.

#### STATEMENT OF JULES SOKOLOFF

Mr. SOKOLOFF. Good afternoon, sir. I welcome the opportunity to testify before you.

Senator HOLLINGS. Sir, go right ahead. You have a prepared statement, I see.

Mr. SOKOLOFF. My name is Jules Sokoloff. I live in Florida, which is fast becoming the cruise capital of the world.

I represent American interests who would purchase some of the vessels in question and return them to active, revenue producing, job providing ships under the American flag. We would hire American seamen, carry American passengers, and produce tax revenue which is currently leaving the country from a multitude of foreign carriers. Cruise lines who, incidentally, can seem to make money in the passenger hauling business.

There have been several hearings in the House and the Senate pertaining to the sale of the American passenger fleet. In every hearing the shippers have cried that they cannot make money in the passenger business. They have even trotted out lots of facts and figures to substantiate that claim.

Well, I am here to say there is money to be made in the passenger business. It is there only if someone will go after it. Believe me, the foreign companies are. They are leaving American ports every day with hundreds of American tourists and thousands of American tax dollars.

I have included with this statement a complete list of facts and figures. They are not the shipping company figures, but figures which represent an accurate account. I also have figures which show how the American fleet could be put back in business under the American flag.

I will be frank. At this time it would be very hard, if not impossible, to have the money interests step forward. However, I will stake my reputation as a businessman who has raised large sums of money before and say that the money is there and can be obtained. In fact, if this bill were to be defeated, I predict within a month our interests could have the work well underway to return at least two of the ships in question to the passenger market under the American flag. A

market which is being exploited every day by a host of foreign flag passenger carriers.

Investors at this time are reluctant to announce their intentions because of the unpredictability of the future of this bill. I cite the Alaska pipeline as an example.

Millions of dollars worth of goods and equipment sit and rust because of a controversy concerning the damage such a pipeline might do to the ecology. This matter is now pending, but the investors have and are losing money. I am sure you can see why an investor would be reluctant to step forward in this matter. I assure you, investors could be found pending a definite settlement of this bill.

I have operated in the shipping business before and I know how to make it work successfully. My friends and I are ready to do that now with this American fleet.

Instead of allowing the fine passenger ships to sit and rust beside a pier, we are prepared to put them to work. This will produce new jobs and new tax revenue. Currently the ships are producing nothing but bills for the American taxpayer.

While I am at it, I would like to point out that the ships in question were built under specific contractual terms, terms which the shipping company is prepared to violate. It is almost like defaulting on the mortgage. The shipping companies have not taken the time to include that fact in their presentations to Congress.

While it is true my group would like to buy and operate the ships in question, I would just like to see the ships operating. It is criminal to keep these ships tied up and rusting at piers. If the only way to get them operating again is under a foreign flag, then I say do it. But, Senator, we are making an attempt to keep these ships under the American flag.

Since the start of this bill in Congress the voices of the shipping companies have been most strident. They have claimed over and over again there is no money in the passenger business for them. They say they cannot make money. Well, that much is true. They cannot make any money. No one could make any money the way they are trying to do it.

We can and would change that. I have included facts and figures to prove there is money in the passenger business. Think of the related jobs in food service, shipyards and tour terminals. Think of the reduction in the balance of payments deficit.

Gentlemen, we are awaiting a chance to prove we can do the job. I hope we get that chance before the foreign flag interests do.

I would like to answer all your questions.

Senator HOLLINGS. When you say we, who is we?

Mr. SOKOLOFF. Certain American investors.

Senator HOLLINGS. Well, name them.

Mr. SOKOLOFF. Unfortunately, sir, they will not permit me to.

Senator HOLLINGS. Well, then we will have to go about it I guess a different way, Mr. Sokoloff. We just cannot operate in the dark. We do not want to all be McGraw-Hill, Inc., up here in this Commerce Committee. You are not going to "Irving" us.

You say "my reputation as a businessman." You are a U.S. citizen?

Mr. SOKOLOFF. No, sir.

Senator HOLLINGS. You are not?

All the provisions of the maritime law pertain to U.S. citizens, that is, the subsidy payment and everything else.

Mr. SOKOLOFF. I would be an employee of an American corporation.

Senator HOLLINGS. It would be an American corporation?

Mr. SOKOLOFF. Yes, sir. All of the investors—

Senator HOLLINGS. All stockholders and investors you could not identify.

Mr. SOKOLOFF. Yes, sir, they would all be U.S. citizens.

Senator HOLLINGS. You again say, "I will stake my reputation as a businessman." There has been some question about the operation of the *Yarmouth Castle*. Would you comment on that?

Mr. SOKOLOFF. Yes, sir. That was a ship I operated and had a fire at sea and it sunk.

Senator HOLLINGS. Has it been investigated and the cause determined for the sinking?

Mr. SOKOLOFF. Yes, sir.

Senator HOLLINGS. What was the cause?

Mr. SOKOLOFF. The cause was a fire at sea of undetermined cause.

Senator HOLLINGS. Undetermined?

Mr. SOKOLOFF. Yes, sir.

Senator HOLLINGS. They did not find any neglect on your operation of it?

Mr. SOKOLOFF. No, sir.

Senator HOLLINGS. You see the point I am getting at. They do not want to say the committee got a guy who burned a ship and lost lives and now says he can't name names, he is not a citizen but he is ready to operate. This committee would not make a judgment of this kind on information we do not have.

Mr. SOKOLOFF. That is not true, sir. You have people who come before this committee and make statements like Mr. Gibson who says Cunard Line can only run a certain number of trips—he said it correctly—for transatlantic voyages. But Cunard Line has just built a brand new ship and is operating out of San Juan on weekly voyages called the *Adventurer*, and it is moving to Norfolk this spring and a sister ship will be coming into San Juan. Two brand new ships.

Senator HOLLINGS. Cunard has just built these?

Mr. SOKOLOFF. Yes, sir, one was commissioned early this fall and the other one will be commissioned this spring.

Senator HOLLINGS. And their points of entry and termination are where?

Mr. SOKOLOFF. San Juan through the Caribbean and back to San Juan. It is going to start this spring from Norfolk through the Caribbean and back to Norfolk.

Senator HOLLINGS. What is the general size of those vessels?

Mr. SOKOLOFF. They are brand new 15,000-ton passenger ships.

Senator HOLLINGS. Do you know whether those are British or American investors who put the money into this?

Mr. SOKOLOFF. British investors. American investors 3 weeks ago bought the *Empress of Canada* from Canadian Pacific Steamship Lines, and it is now running out of the port of Miami. Her inaugural cruise was last Saturday.

Senator HOLLINGS. Is Cunard satisfied with that operation?

Mr. SOKOLOFF. Yes, sir.

Senator HOLLINGS. Have you heard the statement that allegedly Cunard made that they wished they had not built those vessels?

Mr. SOKOLOFF. No, sir.

Senator HOLLINGS. You would be surprised at that?

Mr. SOKOLOFF. No, sir, I would not be surprised with that statement. There is a controversy that Cunard is having with their labor unions, and fortunately that controversy does not exist here because the unions here are more than willing to assist in this type of problem.

Senator HOLLINGS. But can you tell us something of your experience other than the *Yarmouth Castle*? How many years have you been operating passenger vessels?

Mr. SOKOLOFF. Firstly, Senator, I think the basic problem is that we are approaching this from the steamship viewpoint. I got into the steamship business by way of a bad investment. I loaned somebody money and this company had a lot of real good steamships operating and I was forced to take over the company and found that they were surely breaking me. Suddenly I decided to get rid of the steamship types and decided that this was nothing more than a floating hotel and we changed the concept of it from a steamship to a floating hotel and we operated it as a resort. Slowly it turned and we made very good money.

Senator HOLLINGS. What vessels were these?

Mr. SOKOLOFF. The *Yarmouth* and the *Yarmouth Castle*.

Senator HOLLINGS. And the *Yarmouth Castle* complied with all the safety regulations?

Mr. SOKOLOFF. Yes, sir. It complied with the 1960 regulations and that was a year prior to its enactment.

Senator HOLLINGS. What about the fiscal responsibility, Mr. Sokoloff, of your operations? You fiscally are solvent now? Any outstanding judgments against you?

Mr. SOKOLOFF. Well, there is pending litigation from this tragedy but I have insurance coverage.

Senator HOLLINGS. I see. That is the only thing? The only judgments are those involved with the *Yarmouth Castle* by itself?

Mr. SOKOLOFF. Yes, sir.

Senator HOLLINGS. When did you first come upon this proposal? Is it unfair to say why do you make the proposal now? Why haven't you made it earlier?

Mr. SOKOLOFF. I like to think that I am a prudent businessman and I thought there were three important steps necessary before any proposal could be made.

Firstly, there had to be an absolute agreement with union as to labor as to what the payroll could be. Obviously without cooperation from them this would have been a hopeless task. This necessitated quite a number of meetings and quite a lot of discussion.

Senator HOLLINGS. You have talked with the union leaders on that?

Mr. SOKOLOFF. Yes, sir, I have a signed letter from the president of the National Maritime Union agreeing to a wage scale.

Senator HOLLINGS. That was the first item. What else?

Mr. SOKOLOFF. Second, there had to be—at that point the original bill for the sale of all foreign-flag ships was being offered to Congress and it was a question as to whether or not to pursue this. One was held up in the Rules Committee. I went about finding an investor and I contacted J. B. Williams & Co. with whom I have done business before and he had people ready to move on the understanding that this bill would be defeated. However, it wasn't defeated, as you know, and the bill was changed and amended and a new bill passed in the House—

Senator HOLLINGS. Is Mr. J. B. Williams in the audience here?

Mr. SOKOLOFF. No, he is not, sir. [Continuing.] At which time he withdrew. He is still very interested and very willing to enter any agreements that would be necessary. However, he doesn't want to be chasing a pie in the sky so I have been chasing it.

Third, there are certain laws that obviously need changing. The laws dealing with the point-to-point transportation to 12-month cruising. This I am told is pending before a committee at this moment. I don't know the results of that. But to sell these ships would be really a crime because they are without question the finest ships available.

Senator HOLLINGS. What kind of assurance, Mr. Sokoloff, did you give us with these unnamed investors and other than Mr. Williams, is there any other assurance you could give the Government in your proposal?

Perhaps I would say the bill doesn't pass and you can't sell it to foreign operators and you buy it cheaper because the bill didn't pass and you make the profit rather than they and you are up there with the bill.

Mr. SOKOLOFF. All I can tell you, Senator, is that the *Empress of Canada*, which was in my opinion a far inferior ship, was sold for \$8½ million cash and an American investor put up the money and it is now operating. I assure you—

Senator HOLLINGS. When was that?

Mr. SOKOLOFF. 3 weeks ago.

Senator HOLLINGS. Under what flag?

Mr. SOKOLOFF. She is sailing under the Panamanian flag.

Senator HOLLINGS. But could she afford to operate under the American flag?

Mr. SOKOLOFF. There is no question but what she could operate just as economically under an American flag with the cooperation of the union.

Senator HOLLINGS. Do you wish to add anything else, Mr. Sokoloff?

Mr. SOKOLOFF. No, sir.

Senator HOLLINGS. Thank you, sir.

Mr. SOKOLOFF. Thank you.

(The attachments to the statement follow:)

MOORE-McCORMACK LINES, INCORPORATED PASSENGER VESSEL OPERATIONS ON CLOSE OUT BASIS 1967-68

	1967		1968		Total
	ARGENTINA	BRASIL	ARGENTINA	BRASIL	
	Total	Total	Total	Total	
Voyage days:					
Port.....	119	143	131	138	269
Sea.....	247	220	232	226	458
Total.....	366	363	363	364	727
Mileage.....	122,933	108,678	107,997	130,756	238,753
Number of passengers.....					
Revenue:					
Freight and mail.....	\$457,764	\$227,689	\$41,311	\$135,806	\$177,117
Passenger.....	6,457,701	6,667,712	6,329,922	6,754,263	13,084,185
Other.....	198,670	210,524	158,945	195,076	353,621
Total.....	7,114,135	7,105,925	6,529,778	7,085,145	13,614,923
Expenses:					
Vessel operating:					
Wages.....	4,650,291	4,491,551	4,787,087	5,240,690	10,027,777
Subsistence.....	1,044,148	1,079,800	1,044,355	1,113,731	2,158,086
Stokes.....	412,799	386,951	382,584	415,307	797,891
Fuel.....	589,766	527,527	524,070	605,298	1,129,368
Maintenance and Repairs.....	531,331	547,512	537,537	528,889	1,066,426
Insurance.....	596,719	573,460	597,641	629,236	1,226,877
Other vessel expenses.....	154,191	158,025	153,484	129,330	282,814
Total.....	7,179,245	7,764,826	8,025,758	8,662,481	16,689,239
Voyage expense:					
Fees and commissions.....	54,831	41,517	63,370	80,105	143,475
Port charges.....	252,311	259,232	270,753	260,515	531,268
Cargo (including baggage).....	303,232	206,157	166,228	183,430	349,658
Brokerage.....	498,311	557,655	558,649	550,582	1,109,231
Other voyage expenses.....	148,955	167,546	192,300	213,409	405,709
Total.....	1,257,638	1,232,107	1,251,300	1,288,041	2,539,341
Total operating expenses.....	9,236,883	8,996,933	9,278,058	9,950,522	19,228,580
Subsidy (estimated).....	<2,122,748>	<1,891,088>	<2,748,280>	<2,865,377>	<5,613,657>
Profit after subsidy.....					6,838,500
Depreciation.....					1,224,843
Profit after depreciation.....					1,284,024
					<59,181>

PROJECTION FOR THE OPERATION OF S.S. BRASIL AND S.S. ARGENTINA FROM THE PORT OF MIAMI, FLA., CRUISING IN THE CARIBBEAN ISLANDS, 48 TRIPS EACH FOR A TOTAL OF 96 TRIPS PER YEAR

1 YEAR BASED ON 96 TRIPS CRUISING BETWEEN MIAMI-SAN JUAN, P.R.

SCHEDULE—S.S. "BRASIL"

Arrival	Port	Departure
07:00 Sunday	Miami, Fla.	17:00 Saturday
09:00 Tuesday	Nassau, Bahamas	14:00 Sunday
08:00 Wednesday	San Juan, P.R.	02:30 Wednesday
08:00 Saturday	St. Thomas, V.I.	01:00 Thursday
	Miami, Fla.	

Note: Sailing time, 113 hours. Port time, 42 hours

SCHEDULE—S.S. "ARGENTINA"

Arrival	Port	Departure
07:00 Monday	Miami, Fla.	15:30 Saturday
09:30 Tuesday	Puerto Plata, D.R.	14:00 Monday
21:30 Tuesday	St. Thomas, V.I.	17:00 Tuesday
13:00 Thursday	San Juan, P.R.	17:00 Wednesday
09:00 Saturday	Cap Haitien, Haiti	20:00 Thursday
	Miami, Fla.	

Note: Sailing time, 109 hours. Port time, 47 hours.

CRUISE REVENUE

Date of trips	Number of trips	Passengers per trip each vessel	Total	Per day (\$46)
June 10 to September 9	28	525	14,700	\$4,733,400.00
September 16 to November 4	16	350	5,600	1,803,200.00
November 11 to December 16	12	400	4,800	1,545,600.00
December 23 to January 6	6	500	3,000	966,000.00
January 13 to February 3	8	375	3,000	966,000.00
February 10 to April 14	20	500	10,000	3,220,000.00
April 21 to June 9	16	350	5,600	1,803,200.00
Total	104		46,700	15,037,400.00
Concessions (bar, shops, etc.)				150,000.00
Total revenue				15,187,400.00

Drydocking of vessels during October and November, 1973 and annually thereafter.

Direct charges to revenue:

Commissions (12½%)	\$1,898,425.00
Passenger meals at \$5.50 per day	1,797,950.00
Total	<u>3,696,375.00</u>

General operating expenses:		
Fuel and lubrication	-----	\$2, 100, 000. 00
Water	-----	20, 000. 00
Laundry—linen and uniforms	-----	150, 000. 00
Crew meals	-----	550, 000. 00
Crew transport	-----	50, 000. 00
Payroll ships	-----	7, 600, 000. 00
Cruise directors	-----	60, 000. 00
Medical	-----	40, 000. 00
Deck supplies	-----	100, 000. 00
Steward supplies and replacements	-----	200, 000. 00
Engine supplies	-----	160, 000. 00
Pursers supplies	-----	30, 000. 00
Insurance (\$9,000 per ton 60 percent call P&I)	-----	900, 000. 00
Radio and Radar	-----	20, 000. 00
Drydocking (average over 12 years regular and special)	-----	250, 000. 00
Miscellaneous	-----	200, 000. 00
Capitalization	-----	1, 250, 000. 00
Interest	-----	600, 000. 00
Port charges (\$3,000 per trip)	-----	312, 000. 00
Total	-----	<u>14, 592, 000. 00</u>
Shore administrative expenses:		
Wages—Offices	-----	\$460, 000. 00
Insurance	-----	12, 000. 00
Telephone and telegraph	-----	47, 500. 00
Rental	-----	60, 000. 00
Office supplies	-----	100, 000. 00
Legal	-----	100, 000. 00
Accounting	-----	60, 000. 00
Advertising and promotion	-----	600, 000. 00
Electricity	-----	3, 500. 00
Postage	-----	50, 000. 00
Janitor	-----	3, 500. 00
Executive office expense	-----	300, 000. 00
Bad debts	-----	100, 000. 00
Miscellaneous	-----	50, 000. 00
Salesmen expenses	-----	90, 000. 00
Total	-----	<u>\$2, 067, 500. 00</u>
Profit and loss:		
Cruise Revenue	-----	\$15, 187, 400. 00
Minus:		
Direct charges (3)	-----	\$3, 696, 375. 00
General operating expenses (4)	-----	14, 592, 000. 00
Shore administrative expenses (5)	-----	2, 067, 500. 00
Subtotal	-----	\$20, 345, 875. 00
Subsidy	-----	7, 000, 000. 00
Total	-----	\$13, 345, 875. 00
Net profit	-----	<u>\$1, 841, 525. 00</u>

Senator HOLLINGS. The committee will be in recess.  
 (Whereupon, at 3:23 p.m., the hearing was adjourned.)

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## ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HON. MENDEL DAVIS, U.S. REPRESENTATIVE  
FROM SOUTH CAROLINA

Mr. Chairman, first of all, let me thank you for allowing me this opportunity to appear before your Committee. I want to commend you and your Subcommittee on holding these hearings. I feel the matter before you is very, very important to our country today.

This country is fast losing in the race for supremacy of the seas, both commercially and militarily. I feel that it is vital to this country and to its survival that we maintain our supremacy of the seas. I think that it is vital to our system of economics that the American flag fly on the commercial vessels, be they pleasure or transport, that traverse the sea lanes of this globe.

Today we are debating the future of the American passenger fleet. There are those who would sell that fleet to the many countries around the globe who seem to make money hauling passengers off on vacation. There are businessmen who would throw in the towel and say there is no way to make money with a passenger fleet. It seems to me some of our leaders are far too anxious to sell short the American who would use the cruise ship as a means of traveling. While it is true today that most of the American fleet is laid up in port, it is also true that there are interests other than foreign who would like a chance to prove the American fleet can be made again a vital, vibrant fact of life.

The National Maritime Union is extremely concerned because of the pending loss of jobs if this legislation goes through. I should think the Congress could consider the alternatives of selling outright the American fleet. It is the contention of the framers of this bill that we will be able to get back the ships when and if they are needed. Gentlemen, that is at best a cruel joke. Somehow, I can't imagine any country, some which still owe us huge sums from World War II, readily returning the vessels if we should ask for them. As a matter of fact, I can't imagine getting any ships back once they are sold, without a series of long discussions.

At the present time, there is a fine new passenger terminal underway in Charleston, South Carolina, and the cruise business is booming out of that port. Therefore, I would have you consider this—not one American-flag vessel at this time is getting one dime's worth of money from that boom. Not one! There is not one American passenger ship calling on the port of Charleston, with an American crew, carrying American passengers to their vacations. There are instead foreign crews sailing woefully unsafe ships, carrying American passengers to their vacations, and sometimes tragically to their doom.

We have seen the lack of proper safety measures, or at least the minimal precautions kill passengers by turning their vacation ship into a floating funeral pyre. Most passengers leave in a festive atmosphere, unaware of the danger, and I do not suspect that the shipping companies currently plying the market will make much effort to apprise them either.

I have today an American who would like to invest in the ships and move them from the slips where they now rust back onto the sea lanes where hopefully they can once again provide fun for the vacationer, work for the American seaman, and money for the American government. Mr. J. B. Williams is ready. He has in fact already made an offer to Moore-McCormack for two of the vessels in question. He has suspended the negotiations at present, pending the outcome of this matter in the Congress. I am assured, however, that he will reopen negotiations at once if this matter is settled favorably.

What do we have to lose? A little time? A little money? A little of both, perhaps, but certainly not the American fleet. I assure you, gentlemen, once the fleet is gone it will never come back. The millions of tax dollars which were spent to build the fleet, the thousands of workers who will be without a job, and the hundreds and hundreds of passengers who will take a fun-filled vacation in the coming years will have to ride on non-American-flag vessels.

Let's not kid ourselves. If we undertake to save the American fleet, it will be a giant effort. The decline of our merchant marine fleet has progressed to a point where it will take time and effort to put it back on the road to recovery. I have seen this Congress meet the challenge of the Marshall Plan, stem the decline of the American railroads, and champion many causes. It is inconceivable that we will wash our hands of this problem and say that it can't be done. I would urge that we look at the alternatives to selling the American fleet. Let's ask ourselves, "have we done all that we can, have we explored all the avenues?"

We are being told that the route across the Atlantic is choked with jet planes and that there is no business left for the passenger ship. Well, that may be, but what about the lucrative southern routes to the Caribbean. Are we to believe that the American ingenuity and enterprise is unavailable for this fight? What happened to old-fashioned pride? If we allow this sale of the American passenger fleet to go through, it is only a matter of time before the same ships are back, picking up American tourists and tax dollars and sailing away with them.

The economy is one of the key questions today. A recent Gallup Poll showed 45 percent of all American felt that the economy was a vital issue in this approaching election. Yet we are proposing to add further to the American woes insofar as the balance-of-payments deficit is concerned. We are attempting to add to the unemployment rolls thousands of American seamen. We are thinking about destroying the thousands of related jobs at our already suffering shipyards. We are ready, apparently, to stand up while cheap, sweatshop labor and foreign flags sound the death knell of a segment of our maritime industry.

We have already seen the devastation of our fishing fleet on the East Coast by the Russian and Japanese fleets. We have seen the American merchant marine fall to a lower level yearly. Since 1968, we have scrapped or laid up more than 400 ships. Even the American Navy is in a sad state. Every nation on this globe that is any kind of power has a strong navy and or merchant marine fleet. Every country which has ever been a power had a strong merchant marine fleet and navy.

Instead of rushing into the seller's market to foreign flags, let us look at the domestic market for those ships. Let's give the J.B. Williamses a chance to prove that the American flag can fly over a passenger vessel. Let's walk the second mile in the hope of finding a more acceptable solution, but let's not scuttle the American passenger fleet as fast as we can.

Gentlemen, our passenger fleet holds a grand potential. There are people in the United States today, who given the right help, help this Congress can and should supply, could make the United States a power on the high seas again. If we don't help the fleet now, there is no real need to feel concern in the future. The fleet will be bought by the foreign countries who are making their maritime interests work. The ships will go at a fraction of the building cost, to countries who will in turn use the American tourist trade as the foundation of their business. The balance of payments will be further weakened. Every time one of our ex-ships leaves the coast with a load of American tourists, it will be like bundling up thousands of tax dollars and sending them along. The docks will be lined with sad-faced men who once had jobs at sea under the America flag. At home, the families of those men will wonder if work will ever come again. And some members of this body will have the dubious satisfaction of knowing that they caused the demise of the once-great American passenger fleet.

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OPERATION SEA-LIFT,  
Seattle, Wash., January 31, 1972.

OFFICE OF SENATOR MAGNUSON,  
(care of Mr. Rouvelas),  
Washington, D.C.

DEAR MR. ROUVELAS: Literature enclosed is being sent to all interested parties who write in.

I spoke to you last week by phone as to the availability of the passenger ships.

We have decided to go ahead and organize as soon as possible. We hope to show through this organization that those ships could be operated under an entirely new structure.

To sell these ships would be a great loss to this nation.

A. The government would realize about 5 cents on the dollar.

B. By selling these ships foreign, we would be subsidizing the foreign operators.

C. An estimated 6000 American jobs would be sold foreign along with the ships.

D. American Tourist Dollars spent on these ships would be a further dollar drain from the United States.

These points could be reversed with assistance.

By this letter, we are asking for assistance in obtaining the needed data and backing for our operation.

The corporate name so far decided would be United States Passenger Lines, Inc.

We need the US Coast Guard Manning Scale, including required Certified Lifeboatmen of the SS *Argentina* & SS *Brazil*. These are the first two ships we will concentrate on. They are the most versatile ships.

Our estimate of the costs for breaking out these ships under this system is under one million dollars.

The time schedule would be crewing up the ships in mid-March and ready for operation by May 1, 1972.

Assistance in obtaining the required funds is necessary for the project.

Your office has always been an advocate of a strong United States Merchant Marine so we address our appeal to you.

Sincerely yours,

Capt. R. S. ARMITSTEAD.

OPERATION SEA-LIFT, P.O. Box 6677, SEATTLE, WASH. 98116

This is the organizing center to incorporate to obtain and operate all American Passenger Ships now laid up.

There is no money behind this organization at present. Once it is shown all crew members are willing to invest labor to start the ships up and wait an estimated 45 to 60 days before wages are payable from revenues, money would be available for the shipyards, drydocking, materials and stores required to re-activate these ships.

What is required of you:

1. Furnish your own transportation to Baltimore, Md.
2. Have sufficient funds (personal) for a minimum of 60 days.
3. The willingness to work hard and eventually give the best service available to passengers.
4. Assist in modernizing and updating the passenger ship business.

Why vested interest employment?

Assume 400 crew members showed up to *invest* their labor to activate the first two ships. This would represent in excess of \$25,000.00 *per day* we can show as our part of the investment. This would then enable us to request additional money from regular sources. With a united, investing crew there will be a strong argument for the US Government to resume a subsidy on these ships.

Still interested?

1. Send \$50.00 to defray organizing costs.
  2. March 1, 1972 is the target date for incorporating. You will be notified in time.
  3. An additional \$100.00 at time of incorporating.
  4. Fill out the attached form. Check payable to OPERATION SEA-LIFT.
- Phase One: Activate, operate SS *Argentina*, SS *Brazil*, SS *Santa Paula*, and *Santa Rosa*. Phase Two: SS *Constitution*, SS *Independence*. Phase Three: SS *United States*.

Time is of the essence: As this goes to the printers, a bill to clear the way to sell most of these ships to foreign flag operators has already passed the House of Representatives and is now on its way to the Senate.

Detach and mail with check to Operation Sea-Lift, P.O. Box 6677, Seattle, Wa. 98116.

## Application for Vested Interest Employment OPERATION SEA-LIFT

Name \_\_\_\_\_ Phone: AC \_\_\_\_\_  
last first int.

Address \_\_\_\_\_

License, endorsements, rating or position held \_\_\_\_\_

Additional qualifications \_\_\_\_\_

Additional qualifications \_\_\_\_\_

Book or Z No. \_\_\_\_\_ Social Security No. \_\_\_\_\_

Sex \_\_\_\_\_ Have you ever been a crew member \_\_\_\_\_? If so, have you ever  
been on passenger ships \_\_\_\_\_? Use back of this for any additional information.

Date \_\_\_\_\_ Signature \_\_\_\_\_

## THE ABOMINABLE NO-MAN

You say "Let's—."

He says "Let's not."

You say "Hey! Here's an idea!"

He says "It won't work."

You say yes.

He says no.

You find him in families, in armies, in companies, in clubs, and sometimes  
high in the affairs of your country.Doesn't he know . . . can't he learn . . . that *no-man's land* is a wasteland  
where nothing can grow?KAISER INDUSTRIES CORP.,  
Washington, D.C., February 25, 1972.Hon. RUSSELL B. LONG,  
Senate Office Building,  
Washington, D.C.

DEAR SENATOR: May I again express the great interest of National Steel and Shipbuilding Company, a Kaiser shipbuilding operation in San Diego, in early Senate passage of H.R. 11589 pending before your Merchant Marine Subcommittee. This House-passed bill would permit the sale to foreign interests of several U.S.-flag passenger vessels. These vessels were taken out of service several years ago, as they could not be economically operated, and are currently in a laid-up status. Even laid up, they continue to severely drain the resources of their owners.

Please note that H.R. 11589 not only allows the sale of these vessels but requires that within 12 months of the sale the present owners invest the proceeds in new U.S.-flag tonnage. Thus shipyard employment opportunities would be created, seagoing jobs lost with the lay-up of the passenger vessels would be partially restored, and the U.S. Merchant Marine would be enhanced with the addition of modern, efficient merchant vessels.

Our shipyard is in a very good position to contract for two vessels under the terms of the legislation. Such a contract of about \$57 million would bolster our employment which has recently steadily declined. Hence, prompt consideration is most important to us and the community.

We would deeply appreciate your favorable consideration and support of H.R. 11589.

My compliments, regards and best wishes.

Sincerely,

WALTER T. PHAIR.

THE ASSISTANT SECRETARY OF COMMERCE,  
Washington, D.C.

HON. WARREN G. MAGNUSON,  
Chairman, Committee on Commerce,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Mr. Gibson, who unfortunately is out of town, testified before the House Merchant Marine and Fisheries Committee on September 21, 1971, in support of H.R. 10577, a bill to authorize the foreign sale of certain passenger vessels.

His testimony stated that the owners of these vessels have been unable to operate them at a profit even after subsidy, that the vessels are in layup, that there is no feasible way for any of the existing operators to place these vessels back in service under the American flag, that no American group has presented to the Maritime Administration a viable plan for reactivation of any of the ships, that the layup costs are a financial drain on the owners which the owners cannot afford and which interferes with their ability to build the new, modern vessels they need, and that the net proceeds of sale could be converted into new and viable cargo ships to serve our foreign commerce. These facts have not changed and we still support this position.

Sincerely,

ROBERT J. BLACKWELL.

MOORE-McCORMACK LINES INC.,  
Washington, D.C., March 2, 1972.

HON. RUSSELL B. LONG,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR LONG: Moore-McCormack Lines' profits (before taxes) for 1971 were \$1,800,000. This profit did not include any passenger ship lay-up expenses, these having been written off in the previous year. The actual charges against the passenger ships for 1971 were \$1,700,000 plus an additional \$520,000 in cash required for bond redemption. Therefore, our pre-tax profits from cargo ship operations for 1971 were in reality exceeded by our passenger ship losses.

For the year 1972, no reserve has been provided for passenger ship expenses. Our cargo vessels therefore must earn approximately \$2 million before we get to the break-even point. We believe it is a fair statement to say that as long as we are burdened with these idle and costly assets, we are simply exchanging freight ship profits for passenger ship losses.

Yours very truly,

N. D. PASCO, Vice President.

MOORE-McCORMACK LINES, INC.,  
March 13, 1972.

HON. RUSSELL B. LONG,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR LONG: In response to your inquiry concerning the *Argentina* and *Brasil*, we are enclosing the following information:

- (a) The historical loss record of the vessels in operation;
- (b) The annual costs of the vessels in layup;
- (c) The projected loss of the vessels reactivated under present subsidy assumptions but with reduced manning.

This data was drawn from the internal and professional consulting studies which we have submitted to your Committee.

Sincerely,

JAMES R. BARKER.

*Exhibit I.—Projected financial results*

## S.S. ARGENTINA/S.S. BRASIL, 1972

Revenue (100 percent capacity).....		\$13, 600, 000
Less brokerage.....		1, 400, 000
Net revenue.....		<u>\$12, 200, 000</u>
Operating cost.....	\$22, 486, 000	
Overhead (inc. adv.).....	1, 124, 000	
Depreciation and interest.....	1, 287, 000	
Total cost.....	<u>\$24, 897, 000</u>	
Less subsidy.....	7, 600, 000	
Net costs.....		<u>\$17, 297, 000</u>
Net annual loss.....		(\$5, 097, 000)

NOTE: Does not include reactivation costs of \$4,000,000.  
 Assumes: (a) Union reduction in manning scales from 408 to 326  
 (b) Favorable change in work rules, overtime, etc.  
 (c) Revenue at full capacity.

*Exhibit II.—Historical financial results*

## S.S. ARGENTINA/S.S. BRASIL

		(All Losses)
1968.....		(\$2, 663, 000)
1969 (9 months).....		(\$1, 557, 000)
12-year period.....		(\$19, 509, 000)
Annual costs (in layup):		
Book:		
Maintenance and other.....	\$449, 224	
Depreciation.....	784, 000	
Interest.....	503, 000	
Annual cost.....	<u>\$1, 736, 224</u>	
Cash:		
Maintenance.....	\$449, 224	
Interest.....	503, 000	
Debt redemption.....	1, 030, 000	
Total.....	<u>\$1, 982, 224</u>	

[Telegram]

EVERETT, WASH., February 7, 1972.

Senator WARREN G. MAGNUSON,  
 Old Senate Office Bldg.,  
 Washington D.C.:

THE HONORABLE SENATOR MAGNUSON: We urgently request your support of H-11589 permitting sale of Moore-McCormack SS *Brauil* and SS *Argentina* to foreign owners. New ship construction resulting will have direct benefit to Puget Sound Industries. Example—WGC/Everett holds a letter of intent for major subcontract items contingent on construction of Moore-McCormack—*San Clemente* class vessels.

ELWIN MESSER,  
 Vice President, Western Gear Corp.

SVANHOLM RESEARCH LABORATORIES,  
Washington, D.C., January 22, 1972.

AMENDMENT TO PROJECT VALUE

This amendment is addressed to a summary delineation of objectives, programs and means of initiation and operation of PROJECT VALUE in the public and private interests. The basic study recommendation is presented in our 6 December, 1971 document concerning the practical application and utilization of the S/S UNITED STATES. This amendment is intended to extend the basic consideration in the establishment of a feasible operation in the service of our Nation.

(1) It is suggested that the utilization of OTHER AMERICAN FLAG SHIPS be evaluated for inclusion under PROJECT VALUE. These include those ships in stand-by for being considered for sale to foreign Nations at a price far below their intrinsic value. The FLAG-SHIPS which now are identified in addition to the S/S UNITED STATES are the ATLANTIC, the INDEPENDENCE, the CONSTITUTION, the ARGENTINA, the BRAZIL, the SANTA PAULA and the SANTA ROSA.

(2) It is also suggested that funding be sought from active public participation by private individuals and corporate bodies to provide the essential monetary resources for the acquisition, maintenance and operation of the program objectives.

(3) Further it is suggested that a resources requirement and availability study be enacted to obtain and apply presently available multidiscipline professional and technical and supporting personnel that will be willing and interested to participate in the staffing and operation of PROJECT VALUE program projects. Especially retired and unemployed experts and supporting personnel from youth, veterans and Engineers and Scientists including ship operation trainees which will enable low-cost operation of the ships and maintenance of ship equipment and on-board technological program facilities.

In conclusion, this amendment augmenting the 6 December, 1971—PROJECT VALUE—document, projects practical approaches to achieving the following long-range benefits for National public and private and collaborating foreign national participants:

(1) to re-apply our U.S. FLAGSHIPS in a NEW MODE service for our Nation to enable a broad spectrum of professional and technical resources to become available to help solve real, down-to-earth problems for which solutions are being sought by individuals and groups in the state with which collaborative arrangements have been established.

(2) to bring about new self-development programs through the application of pertinent professional know-how and back-up resources.

(3) to re-activate large numbers of unemployed and underemployed human resources without prejudice with regard to age, ability and interests.

(4) to generate positive and mutually desirable problem solutions and program goals and establish long-range collaborative relationships, and

(5) to develop economic and free enterprise incentives and MICRO-INDUSTRY (ref. 23 April, 1970—through Mr. Sandoval for the President re. National program recommendation) that may lead to enhancement of mutually advantageous trade and ultimately contribute to the stabilization of monetary systems and help make this a better world in which to live.

I suggested in our INVITE COLLABORATIVE SUPPORT to the President and to Congress of 9 January, 1972 that PROJECT VALUE be made a dynamic monument in honor of all invisible or forgotten "Ugly Americans" who without a desire for personal glamour or recognition has made this Nation a great place for doers with abundant initiative, competency, constructive attitudes and unlimited willingness to bridge gaps of understanding.

Sincerely yours,

JOHAN K. V. SVANHOLM, *President.*

SVANHOLM RESEARCH LABORATORIES,  
Washington, D.C., December 6, 1971.

President RICHARD NIXON and CHAIRMAN,  
*Committee on the Merchant Marine,*  
*U.S. Congress, Capitol Hill, Washington, D.C.*

PROJECT VALUE

A NEW PURPOSE: Let us develop concepts for the application of S/S UNITED STATES in a world wide program of social, technological and economic collaboration.

We must define the equipment, staffing and scheduled deployment of a facility for direct confrontation with public and private organizations of domestic and foreign Nations aimed at the improvement of ethnological conditions within collaborating states and facilitating of peaceful commerce.

This will provide utilization and effective employment of American technical and professional experts in pertinent disciplines.

The basic philosophy is inherent in a conviction that International Aid can only be accomplished effectively through a program of mutual participation which requires participating member Nations to generate ways and means for self-improvement. America has much to offer these potential collaborating Nations through the design and implementation of an ongoing program which can establish a facility for collaborative inter-communication.

The modus operandi for the employment of the S/S UNITED STATES in this role will require careful planning. It is therefore suggested that a study be initiated: \* \* \* to define practical objectives; \* \* \* to describe concepts of program and methodology; \* \* \* to delineate and evaluate operational concepts; \* \* \* and to define resources (physical, human and monetary) requirements for project implementation \* \* \* and operation and to apply value engineering analyses to assess feasibility and practicability of the program.

Svanholm Research Laboratories is honored to present this concept and will be pleased to explore with you a practical approach to initiation and conduct of these essential studies.

Sincerely yours,

JOHAN K. V. SVANHOLM, *President.*

